

Accountancy

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Professional Notes

The Bank Rate Change

THE DECISION OF THE AUTHORITIES TO REDUCE BANK RATE FROM 4 PER CENT. to 3½ per cent., while leaving the rate for loans against bills to the discount market unchanged at the lower figure, seems to be a further step in restoring some flexibility to British markets. Only time can show how far this move will affect day-to-day business in the discount market. But it certainly means that any further change in Bank Rate will affect the whole structure of rates in a way determined by market relationships—and not by margins fixed by the authorities.

It is important that this element of flexibility was introduced by a lowering of the Bank Rate and not by a lifting of the market rate, for that this method of adjustment was chosen might well reflect the belief that inflation has been pumped out of the system since the stricter financial and monetary policy came in nearly two years ago, and that what is now required is some stimulus to certain types of internal demand, particularly capital investment in industry. It is not unnatural that recollections of the protracted inflation should cause anxiety lest the Government is acting in a way calculated to revive it. But, however distorted the present distribution of spending in the country, total spending does not appear

to be excessive. With nearly half the financial year gone the Budget position looks unexpectedly strong, and it may well be that the psychological stimulus expected from this new relief will encourage industry and commerce to take risks which recent fears of recession have exaggerated.

The Internal and the Statutory Auditor

The Institute of Chartered Accountants in England and Wales has issued for its members *Notes on the Relation of the Internal Audit to the Statutory Audit*. The notes describe an internal audit as

a review of operations and records, sometimes continuous, undertaken within a business by specially assigned staff... On accounting matters the main objective of an internal audit is to assure management that the internal check and the accounting system are effective in design and operation. In practice, the internal auditor may often be required to report also on whether the system of accounting and the internal check are economical... Two essential features of an internal audit are that it should operate independently of the internal check [defined as "the checks on the day-to-day transactions which operate continuously as part of the routine system"] and that in no circumstances should it divest anyone of the responsibilities placed upon him.

In contrast, the approach of the "statutory auditor"—who undertakes an audit under the Companies Act or, more rarely, under some other Act—is governed by his duty

to satisfy himself that the accounts to be presented to the shareholders show a true and fair view of the profit or loss for the financial period and of the state of the company's affairs at the end of the period.

The internal auditor is a servant of the company and its management decides the scope of his work, but the statutory auditor is responsible directly to the shareholders.

The Institute affirms that the statutory auditor may be able to offer advice on the internal audit. At the same time, he may derive advantage from co-operation with the internal auditor, drawing especially upon the internal auditor's intimate knowledge of the business, particularly in regard to stock-in-trade, the physical existence of fixed assets, depreciation charges, the ascertainment of liabilities and the risks of fraud or misappropriation. The notes go on to suggest that the

statutory auditor may be able to curtail his examination of detail, relying upon work done by the internal auditor in, for example, assessing the general reliability of the accounting records, confirming customers' accounts and verifying stock-in-trade. But the degree to which the statutory auditor can curtail his own work in this way is for him to decide on the facts of the case: he cannot in any circumstances divest himself of the responsibilities laid on him by statute.

The Institute's *Notes* appear to be written mainly with the larger public companies in mind—companies whose internal auditors have direct access to the Boards. Although the internal audit is also important in many smaller concerns, their internal auditors are usually responsible to the secretaries of the companies. In these circumstances, while the statutory auditor would peruse the internal auditor's reports and study his programme, he would not normally, we think, restrict his own audit solely because some parts of it had been covered by the internal auditor. Nor would he normally seek the assistance of the internal auditor in planning the statutory audit. The internal auditor has not complete independence of action—even though in practice the company secretary may very infrequently intervene. In circumstances such as these, the statutory auditor may understandably feel that his duty to the shareholders does not allow him to accept the work of someone who is answerable to a member of the staff of the company.

Education and Training for Management

The British Institute of Management has undertaken a survey of existing British facilities for management education, as the essential raw material for a later critical evaluation. The first part of the survey has now been published under the title *Education and Training in the Field of Management* (obtainable from Management House, 8, Hill Street, London, W.1, price 7s. 6d. post free—6s. to B.I.M. members and subscribers). This volume covers courses at universities and associated colleges of technology, courses at

technical and commercial colleges and colleges of further education, and management subjects in the examinations of professional and educational bodies (including the accountancy bodies). A second volume, to be published at a later date, will cover short courses at residential institutions and university extra-mural establishments, and the conferences and courses of professional and educational bodies, trade unions, trade associations and individual firms.

In the introduction to the present volume it is pointed out that the survey is purely a catalogue of courses and examinations, and no attempt has so far been made to classify them according to purpose or importance. Full syllabuses were not always available. The work will be useful to students, but it is intended chiefly for company executives and for the teaching staffs of universities and technical and commercial colleges. It should also facilitate comparisons with American practice, which have been hampered by lack of detailed knowledge of the British position; this was pointed out by the team sent to the U.S.A. in 1951 by the Anglo-American Council on Productivity at the request of the B.I.M. (see *ACCOUNTANCY*, December 1951, page 439).

Accounting Investigations for the Monopolies Commission

The Select Committee on Estimates recently recommended (*ACCOUNTANCY*, July 1953, page 232, and August 1953, page 247) that the Monopolies Commission should examine the results of a current accounting inquiry conducted on their behalf by an outside firm of accountants, in order to ascertain whether outside appointments could be extended with advantage in future. The Commission has now made a not very positive or satisfactory reply. Though the report of the outside accountants engaged on the current inquiry was, say the Commission, "of the high standard to be expected from the firm employed, the review has not revealed any grounds which would lead the Commission to modify their earlier conclusion that the work is generally best done by or under the direction of

their own accountants. However, the Commission will continue to consider the employment of private firms of accountants if in any case there seems likely to be advantage in adopting that course."

The Commission does not refer in its reply to the argument put forward by the Select Committee, that the engaging of outside firms of professional accountants for investigations would greatly accelerate the work of the Commission.

Taxation Developments in Germany—Business Expenses

The Budget proposals laid before the Federal Parliament last spring, upon which we commented in our issue of May 1953 (pages 149-50), duly passed into law in June, with but minor amendments. It was finally decided to reduce the corporation income tax (*Körperschaftsteuer*) chargeable on profits distributed to shareholders from 60 per cent. to 30 per cent. and not to 40 per cent., as originally intended.

Besides the 15 per cent. reduction of income-tax rates, perhaps the most interesting change brought about by the amending legislation was the attempt to narrow the definition of expenses chargeable against profits. There have been widespread allegations that extravagant entertainment expenses are being charged against business profits, and changes in the tax treatment of expenses mark yet another stage in the prolonged struggle the taxation authorities are waging against the worst abuses. Before the changes now referred to, the law was so drafted that the revenue authorities found difficulty in challenging lavish entertainment expenditure unless it was clearly of a completely personal nature. During 1951, in an attempt to limit the amount allowable for entertaining business guests, scales were fixed for the amount which could be spent on each guest per day. Any entertainment expenditure claimed had to be vouched for on prescribed and detailed vouchers, which would naturally be available for inspection by the taxation authorities during the course of their regular tax audits. It was found in practice, however, that the general scales laid down were inappropriate and that the

work involved was out of all proportion to the expected saving of revenue. Up to the time of the recent amending legislation allowable business expenses were defined as "expenses which are occasioned by the undertaking." To this the following rider has now been added: "business expenses which affect the way of life of the taxpayer or other persons are to be excluded in computing taxable profits in as far as the expenditure is improper having regard to general commercial usage (*Verkehrsauffassung*)."
No doubt there will be considerable arguments on the proper interpretation of this somewhat loosely phrased sub-Section!

One minor but interesting change brought about by the new legislation is that small items of "movable" capital assets, such as machinery, which cost less than Deutschemarks 600 (£ sterling 50) may now be fully written off in their year of purchase. Thus a typewriter costing, say, Deutschemarks 595 can be written off fully on purchase.

In August the law for the promotion of exports was amended and manufacturers of goods may now, in certain cases, deduct from profits 3½ per cent. of the proceeds of goods exported, instead of the 3 per cent. which had previously been allowed. The overriding limit of relief remains unchanged at 50 per cent. of total profits.

The National Accounts

Nowadays the statistics of national income and capital come in two instalments. A short White Paper, published in the spring, gives the advance estimates, in relatively simple form, of the previous year and a fatter Blue Book, issued towards the end of the summer, gives the revised estimates in much more complicated detail. We commented on this year's White Paper in our issue of last May (page 139). The corresponding Blue Book (*National Income and Expenditure, 1946-1952*, Her Majesty's Stationery Office; Price 6s. net) contains such a mass of supplementary statistics that it is hardly possible to write upon it within short compass. It is, however, the indispensable source book for all information on income generation, national expenditure and capital formation.

Accountants will be particularly

interested in Table 20 in the Blue Book (there are 46 tables in all, with full explanatory notes). This is described as an appropriation account for all companies operating in the United Kingdom, "companies" being defined by the Central Statistical Office as "private corporate trading bodies." The salient figures in this account for the last two years (the table covers each of the years 1946 to 1952) are:

RECEIPTS	£ million	
	1951	1952
Gross trading profits (i.e. before depreciation) ..	2,534	2,350
Income earned abroad ..	382	326
Non-trading income ..	356	390
	<u>3,272</u>	<u>3,066</u>
PAYMENTS		
Debenture interest ..	47	49
Preference dividends ..	104	104
Ordinary dividends ..	453	472
Other dividends and interest ..	95	130
Additions to dividend reserves ..	20	30
Remittances and taxes paid abroad ..	144	169
Undistributed income before United Kingdom tax	2,409	2,112
	<u>3,272</u>	<u>3,066</u>
Payments of United Kingdom tax ..	711	910
Additions to reserves for United Kingdom tax ..	469	157
Saving by companies (including stock appreciation) ..	1,229	1,045
Undistributed income before United Kingdom tax	2,409	2,112
	<u>3,272</u>	<u>3,066</u>

Another table, number 13, is of inter-industry transactions in 1950. This table shows, *inter alia*, how in that year each of 10 industrial groups making up the total industry of the country spread its purchases of intermediate products among all the other groups. This is an "input-output account" of a less advanced kind than is already available in U.S.A., where the industrial groups run to about 200, but, even so, it is of considerable importance in showing, in greater detail than we have previously had it, inter-industry dependence at the stage of intermediate products. As the input-output accounts of the Central Statistical Office are extended to a finer classification of industrial groups, they will enable one to say how a variation in the output of any one industry will affect all the other industries of the country.

The last table in the Blue Book, number 46, shows the movements in the value of stocks and work in progress of various broad industrial groups in each of the years 1948 to 1951 (with some incomplete statistics for 1952). Here, again, the information will be of much greater value—at least to the accountant as contrasted, perhaps, with the economist—if and when the industrial classification is made a finer one, so that the stock variation and the work in progress variation of an individual concern can be compared with the general experience of concerns in the same line of business. There is also the consideration that of all the estimates in the Blue Book, those for stocks (and savings) are the least reliable, on the methods of estimating at present open to the Central Statistical Office.

Incorporated Accountants' Conference, 1954

The Society of Incorporated Accountants will hold a conference in Eastbourne on June 1, 2, 3 and 4, 1954. Arrangements will be made with the principal hotels to enable members attending the conference to stay on in Eastbourne over the Whitsun weekend (June 5, 6 and 7), if they wish to do so. The conference programme will include:

- A Civic Reception by the Mayor of Eastbourne;
- A Reception by the President of the Society;
- A Conference Banquet;
- Presentation of four papers;
- Golf Competition organised by the Incorporated Accountants' Golfing Society.

Full details will be sent to members later in the year, but it is hoped that this advance notice will enable members to make arrangements to attend the conference.

Census of Production for 1954

A census of production (on similar lines to the full census for 1951) will be taken in 1955 in respect of the year 1954. The Census of Production Advisory Committee has decided that all establishments within the field of

production should be included in the census.

The tea blending and coffee roasting trade, and the laundry, cleaning, job dyeing and carpet beating trade are classified as distributive or service trades in the Standard Industrial Classification, and will therefore be excluded from the new census. All the trades covered by the censuses of production for 1951, 1952 and 1953 (manufacturing, mining, building and contracting and public utilities) will again be included.

The statutory form of return will include questions on: (1) working proprietors; (2) number of employees; (3) wages and salaries, etc.; (4) capital expenditure on plant, machinery and vehicles; (5) capital expenditure on new building work; (6) materials and fuel purchased; (7) work given out; (8) stocks at the beginning and end of the year; (9) output; and (10) transport payments. Most of the questions will be broadly the same as for 1951, but some additional information will be required in sections (3) and (6). No information will be required about merchanted goods. Some modifications will be made in the headings in sections (6) and (9); details will be sent for comment to the trade associations concerned as soon as possible.

Anyone requiring further particulars should write to the Census of Production Office, Neville House, Page Street, London, S.W.1, stating the nature of the business conducted by his company or firm.

Rateable Values in Counties

An important addition to the available statistics of local government is an *Analysis of Rateable Values at April 1, 1952*, recently published by the Society of County Treasurers, 20, Vauxhall Bridge Road, London, S.W.1, price 7s. 6d. It shows, for each of the administrative counties of England and Wales, the numbers and total rateable value of rateable hereditaments in each of eight categories. Domestic properties are further sub-divided into six classes according to their size. There are separate totals for the urban and rural authorities within each county.

The analysis is essential to the serious

consideration of the rating and grants systems, and has a particular current importance whilst changes in the Equalisation Grants are under discussion. The figures serve as a reminder of the high proportion of rates borne by householders. Two-thirds of all the rateable value in the administrative counties is derived from domestic properties; in only two small Welsh counties do the householders provide less than one-half of the rate income. One-eighth of all rateable value is in domestic properties not exceeding £10 in rateable value, but within this total there are wide differences—in Carmarthen the smallest properties provide 46.5 per cent. of the total rateable value, in Middlesex only 0.6 per cent. It will be very interesting to compare this record with a similar analysis of the values which emerge when the much postponed revaluation of all properties has been completed.

These statistics prompt yet again the uncomfortable realisation that there is very little equity in the rating system.

Shorter Notes

Centenary of Scottish Institute

Next year the Institute of Chartered Accountants of Scotland will celebrate its centenary. Mr. John L. Somerville, F.R.S.E., the President, announced at a special general meeting of the Institute held last month (at which 157 new members were received into the Institute) that a special committee was planning the arrangements for the celebrations on June 16 to 18, 1954.

Chambers of Commerce Autumn Conference

The autumn conference of the Association of British Chambers of Commerce is being held at Belfast on October 1. The Finance and Taxation Group, under the chairmanship of Mr. Frank Bower, C.B.E., is discussing the possible future of purchase tax, and whether or not local rates form a satisfactory basis for local government finances. The subjects before the Overseas Trade Group include trade with countries short of sterling; this is expected to lead to

discussion on the wider question of extended credit to prospective purchasers abroad, with special reference to the recent example of the financing of certain exports of aircraft and aero engines.

Purchase Tax on Sale-or-Return Transactions

The Commissioners of Customs and Excise state that traders should not assume that liability to purchase tax will be deferred if they enter into sale-or-return or similar contracts. These contracts cannot have the effect of deferring liability to tax beyond the date of delivery of the goods to the retailer, unless he has an absolute right to return the goods at any time up to an agreed time limit. In case of doubt traders are advised to consult their local officer of Customs and Excise.

International Management Congress in Brazil

The Comité International de l'Organisation Scientifique (C.I.O.S.) is holding its tenth International Management Congress from February 19 to 24, 1954, in São Paulo, Brazil, during the fourth centenary celebrations of the founding of the city. The general theme of the Congress is "The Leadership Role of Management." Reports will be submitted on eight subjects by national committees; the British committee has undertaken to deal with "Application of Modern Managerial Technique to the Smaller Enterprise." The British national committee has its headquarters in the British Institute of Management, Management House, 8, Hill Street, London, W.1.

Census of Distribution

The summary figures for retailing published in January (see ACCOUNTANCY, February 1953, page 52) are now followed by detailed statistics for 368 individual towns derived from the census of distribution taken in 1951. Information is also now given for service trades—catering, hairdressing, motor and cycle trades, and others. The new volume (*Census of Distribution and Other Services, 1950. Vol. 1. Retail and Service Trades and Area Tables*. Her Majesty's Stationery Office, price 7s. 6d. net) gives the numbers, sales, employment and other particulars for each retail and service trade in each of the towns, and also in the large "conurbations."

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Electronics and Accountants

WITHIN THE PAST YEAR OR SO IT HAS become obvious that we are entering a new phase of mechanised accounting, one in which the whole concept of office records and routine may be changed. The electronic age is upon us.

Electronic machines consist mainly of electrical apparatus similar to that used in radio and television equipment. They perform their calculations and other processes by means of electric pulses, instead of the gears and levers of the more orthodox equipment. Human beings must feed the machines with basic data and the necessary instructions for manipulating the data, but, apart from maintenance engineers and a few operators, need come on the scene again only to read and use the answers.

Electronic computers—to give them one of their titles—were conceived by mathematicians and scientists in the universities and laboratories, and have in consequence been used mostly for involved mathematical calculations, which they perform in fantastically short periods of time. The main unit, or computer proper, consists of racks of valves, resistors and capacitors, the racks appearing similar to those used in a telephone exchange. The "input" and "output" components vary with the system used. The "input" component is the apparatus by which the information to be dealt with, and the instructions on how to deal with it, are supplied to the machine; in one variation it consists

of punched cards and their usual equipment, and in another, punched paper tape similar to that used in a teleprinter. The "output" component is the apparatus by which the result of the machine's operations are made available in the form of a printed statement; this may, again, be achieved by punched card equipment and a teleprinter. In consequence of their origin, electronic computers are at present designed to deal with comparatively small inputs, perform a large number of intricate calculations with such data and produce an output somewhat similar in size to the input. While this type of work requires the machine to "store" certain facts, the storing is usually only needed for a comparatively short period and for the particular job in hand.

To adapt this type of machine for accounting functions it is necessary to provide, firstly, for inputs of considerable volume with comparatively little work in the way of calculation on each item of input; secondly, for an output commensurate with the input; and, thirdly, for a capacity to "store" facts for periods extending over months—periods that for this type of equipment are abnormally long. None of these requirements is beyond the powers of the designers and producers of electronic equipment, but at the moment there are a number of factors which inhibit the use of electronic installations for office work.

One of these factors is that the job to be done must be big enough to

exploit the full powers and advantages of the equipment. It would be uneconomic to do only a small amount of work: particularly because the planning and listing of the instructions for the machine—"programming" as it is called—is a lengthy, detailed and comprehensive task calling for no little skill. But while the cost of machines is at present high, technical developments may reasonably be expected to cheapen them. Another factor to be reckoned with is that accountants might be shy of trusting their records to a piece of somewhat strange apparatus in which important information is in the intangible form of electrical currents (so easily lost!) instead of the familiar pieces of paper with writing on, or the cards with holes in. It will be possible for an initial transaction, such as the production, on one of the new electronic receiving machines, of a receipt for cash received, to be automatically transmitted to some distant electronic computor which, after "debiting the cash" and crediting the appropriate customer's account, will store the information until it is required at the end of the financial period. There is no reason why every prime or initial transaction should not be similarly recorded and—after the electronic engineers have made a further advance, now confidently expected—the final accounts should not be automatically printed by the computor without the production of any intermediate record. But the elimination of primary and intermediate documents and records would constitute an accounting "revolution," and accountants themselves must make major adjustments in their approach and methods if that revolution is to be effected.

Certainly, it will require the co-operation of accountants, in particular, and the business world, in general, with the manufacturers of electronic equipment if these machines are to be developed so as to achieve the results, in the accounting field, of which they are capable. Accountants, especially those in industry, should be ready to discuss their views and requirements with the manufacturers, who are indeed anxious to know what records the profession will need of electronic machines and what safeguards, particularly from the audit viewpoint, will have to be introduced.

Concourse and Discourse

What shelter to grow ripe is ours?
What leisure to grow wise?

—Matthew Arnold

THE DELIGHTS OF CAMBRIDGE HAVE SO OFTEN AND SO ABLY been translated into prose and into poetry that little is left to be said. But no one could have wished for a happier or more serene atmosphere in which to meet for study and discussion than was found in Cambridge by those who were privileged to attend the Society's Course on Taxation held in Gonville and Caius College and in King's College last month.

The matter of the course was included in an address, in seven papers followed by group and central discussions, and in a triple exposition of Appellate Procedure; the manner was in the genial welcome of the President, Mr. C. Percy Barrowcliff, who was ably supported by the Vice-President, Mr. Bertram Nelson, and accompanied by Mr. J. William Hope, C.P.A., immediate past-President of the American Institute of Accountants. The presence of Mrs. Barrowcliff and Mrs. Hope lent grace and charm to the proceedings. Meals in Hall with well-chosen fare and quick service were pleasant interludes, taken in the company of so many famous men whose portraits looked down on us from the walls.

And because without leisure one may not grow wise there were the Cambridge colleges to explore; those colleges steeped in the ancient love for learning, endowed for the training and discipline of the mind and the contemplation of the spirit; serene and sheltered in their historic and architectural setting, and in their tradition of knowledge and of truth, of wisdom and of experience. The River Cam was there for those who wished to take exercise with the strenuous scull, the more leisurely but less manageable punt pole or the soft dipping paddle. And many members tried their prowess at the Gog-Magog Golf Club.

The opening address on Thursday night was given by Sir Eric Bamford, K.C.B., K.B.E., C.M.G., Chairman of the Board of Inland Revenue, on *What the Inland Revenue Expects of the Accountancy Profession*. It was packed with information, with commonsense and with humorous interpolations, to the delight of an enthusiastic audience. Especially did he stress the need for even closer personal relations between the inspectorate and the accountancy profession; and commended informal meetings between inspectors and the District Society Committees. The Inland Revenue's "natural preference for provable figures" had increased the demands made on accountants, and Sir Eric emphasised the joint responsibility of the inspector and the accountant to the public. He said that it was quite natural that their clients should wish to order their affairs so as to attract the minimum liability to tax. But he believed the ordinary man would feel that some line should be drawn and that some transactions went beyond the limits which should be allowed by professional standards and a sense of the public interest.

Sir Eric answered many questions in the same delightful style, and caused much amusement by saying that draftsmen, like chess players, were on the lunatic fringe!

Indeed a distinguished and unforgettable address.

Friday's morning paper was on *The Structure of Companies in Relation to Taxation*, by Mr. H. Major Allen, Barrister-at-Law, and Mr. W. G. A. Russell, Incorporated Accountant. In the ensuing discussion the ethics of avoidance were again referred to, and both speakers considered that the sedulous pursuit of evasive schemes and the exploration of loopholes was undesirable, and inevitably led to further legislation. The accountant can and should refuse to construct a pure avoidance scheme.

In the afternoon Mr. Geoffrey Tribe, Barrister-at-Law, presented an interesting and informative paper on *The Practical Aspects of Saving Estate Duty*, and suggested that there were two ways of avoiding estate duty: not to die or to see to it that you have nothing for five years before you died!

Mr. D. O. Bailey, Incorporated Accountant, went through his paper on the *Finance Act, 1953* in detail, with particular references to subvention payments (Section 20), and replied to questions.

Saturday's paper on *Statutory and Non-Statutory Reliefs* was presented by Mr. J. R. Paramour, F.C.A., Incorporated Accountant. Questions were asked about professional subscriptions and benefits in kind—and Mr. Paramour suggested that the detailed work resulting from numerous maintenance claims could be saved were the Chancellor to agree to increase the statutory repairs allowance in Schedule A assessments, as recommended by the Association of British Chambers of Commerce.

For Saturday evening Mr. H. Major Allen, Barrister-at-Law, Mr. L. Barford, Senior Inspector of Taxes, and Mr. A. Stuart Allen, Incorporated Accountant, successfully collaborated in bringing before members the proceedings leading up to and the conduct of appeal cases.

The Sunday morning service was held in Caius Chapel and in his sermon the Rev. E. W. Heaton, M.A., Dean and Fellow of Gonville and Caius College, said that the average Englishman got hot under his collar at the mere mention of religion. Growing-up today meant out-growing God; but his teaching should be practised every day and everywhere and not be confined to the nursery and excluded from the drawing room and from the office. In the words of the hymn:

" So shall no part of day or night
Unblest or common be;
But all my life, in every step
Be fellowship with Thee."

Professor F. Sewell Bray, F.C.A., Incorporated Accountant, Stamp-Martin Professor of Accounting, gave his paper on *The Nature and Purpose of Direct Taxation* on Sunday evening. This is reproduced on pages 321 to 325.

On Monday morning, members listened with delight

and appreciation to Mr. J. William Hope, C.P.A., immediate past-President of the American Institute of Accountants, when he gave his paper on *The Organisation of an Accountant's Office in the U.S.A., with particular reference to Taxation*.

Before answering questions, he said: "I have now had enough of public accountancy to have gotten out of it and so must be excused if I don't know all the answers—but I want to insist that I did know all the answers once."

(Laughter.)

In replying to questions he said that individual advertising was not permitted, but that near the time for the settlement of tax liabilities the American Institute recommended over the radio the services the qualified accountant could render to the taxpayer, and a film on the accountancy profession was in course of preparation.

The American Institute also ran an advisory section to which members could refer when in any difficulty; Mr. Hope advocated such advisory work strongly.

The last paper of a very full course was presented by Mr. Frank Bower, C.B.E., M.A., Chairman of the Finance and Taxation Committee of the Association of British Chambers of Commerce, and dealt very comprehensively with *Taxes and Inter-connected Companies*. Mr. Bower placed his practical experience at the service of members and the many questions showed their interest.

Guest night in King's College Hall rounded off a very

full and profitable course, and the Hall was a wonderful setting with the soft light from the red shaded candles and the gleam of the beautiful college plate. The President, Mr. C. Percy Barrowcliff, welcomed the guests and thanked the college for their help in making the course possible. The Master of Pembroke, Mr. S. C. Roberts, replied on behalf of the guests and was supported by Mr. J. William Hope, who said that only by full and free interchange of ideas and problems, not only between accountants, could understanding and goodwill best be reached between the United Kingdom and the United States. Other guests included: Mrs. Hope; Mrs. Barrowcliff; Sir G. Paget Thomson (Master of Corpus Christi); Rev. Canon W. Telfer (Master of Selwyn); Mr. D. Portway (Master of St. Catherine's); Rev. E. W. Heaton (Dean of Gonville and Caius); Professor F. E. Adcock; Professor R. F. Kahn; Professor A. R. Todd; Dr. L. Rostas (Department of Applied Economics); Viscount Caldecote (Second Bursar, King's); Mr. Brooke Crutchley (Cambridge University Press); Mr. Maurice Green (City Editor, *The Times*); Mr. D. du Pre (Editor, *The Accountant*); Mr. K. Harrison (Steward of King's); Miss R. N. Small (Steward of Gonville and Caius); and Mr. J. G. W. Davies (Secretary, University of Cambridge Appointments Board).

A successful course, well organised and well supported.

P. R.

THE CAMBRIDGE COURSE—II

Taxation Symposium

This article summarises the seven papers delivered at the Incorporated Accountants' Course at Cambridge, September 17 to 22, 1953. The full text of the paper by Professor F. Sewell Bray, F.C.A., F.S.A.A., on The Nature and Purpose of Direct Taxation is given on pages 321 to 325. The other six papers are published by the Incorporated Accountants' Research Committee in the "Practice Notes" series, price 2s. each net.

We hope to publish in an early issue an article based on the discussion on Appellate Procedure by Mr. H. Major Allen, Q.C., Mr. L. Barford and Mr. A. Stuart Allen, F.S.A.A.

In addition an informal address was given by Sir Eric Bamford, K.C.B., K.B.E., C.M.G., Chairman of the Board of Inland Revenue, on What the Inland Revenue Expects of the Accountancy Profession. (See page 318.)

Company Structure and Taxation

The Structure of Companies in relation to Taxation, by Mr. H. Major Allen and Mr. W. G. A. Russell, contains many useful reminders, hints and warnings. The impact of taxation requires consideration before any step is taken to plan the structure of a new company or to change that of an existing company, in winding up, or in reconstruction. They consider first the capital structure, pointing out the effect of various classes of shares or borrowing on profits tax, on control for sur-tax, on director-control for profits tax, etc.

The various forms of control are then considered—for sur-tax on controlled companies, and for director-control for profits tax.

The importance of the objects clause of the Memorandum of Association is discussed, emphasising the importance of its being wide enough to cover all trading activities, while giving no credence to a possible suggestion that a capital transaction is in

fact part of the trading activities. The question of a company's residence is then taken up, showing the influence of the provisions of the Articles of Association.

In connection with groups of companies, the subvention payments under the Finance Act, 1953, are discussed, and the group treatment for profits tax is mentioned.

The next topic is control for estate duty purposes under Sections 46 and 55 of the Finance Act of 1940. The authors emphasise such points as the ignoring of voting power held in a fiduciary capacity for Section 55, though not for profits tax, and warn against the conflicts which arise between profits tax and estate duty desiderata. Assessments in the early and closing years lead to warnings of the need to watch dates and trends of profits in deciding on action. In their final paragraph under this heading, the authors point out a way of avoiding profits tax on a reconstruction, without warning of the dangers of a sur-tax

direction if the company is a controlled one! A similar criticism appears apt in connection with the distribution of capital profits and the repayment of share capital.

The writer has doubts about their example of avoiding estate duty on bonus shares issued after shares have been put in trust. The statement that the decision in *A. G. v. Oldham* (1940, 2 K.B. 485) would exempt bonus shares from duty in the event of the death of the settlor within five years conflicts with the decision in *Re Payne* (1940, Ch. 576), where it was held that it is the settled property as it stands on the death that passes, including capital accretions. On an out and out gift, the *Oldham* decision applies, but it is thought the Revenue would fight in the case of shares in trust!

Pension schemes (including "top hat" ones) are summarised, and a valuable paper concludes with details of the savings of stamp duty on capital, etc., on reconstructions.

Saving Estate Duty

Mr. Geoffrey Tribe gave an exceedingly useful paper on *Practical Aspects of Saving Estate Duty*. The writer of this note is a little dubious, however, about two of Mr. Tribe's remarks, viz. "I have little sympathy personally with the man who is caught with a heavy bill of estate duty on his death," and "it is obvious that the burden of sur-tax for a family man, assuming, of course, that his family is the right age for the purpose, can be alleviated with the greatest of ease." Both remarks could give an unfortunate idea to clients who have practically their whole assets wrapped up in a business, or whose income comes from a professional practice! It is too often found that families do not live in such perfect amity as Mr. Tribe seems to envisage. His insistence on the need for early thought to the problem of estate duty and its mitigation is welcomed, but the mitigation means in all cases the making over of capital and income to others.

The ways he mentions of avoiding the five year gift *inter vivos* penalty are inevitably limited to:

- (1) Gifts in consideration of marriage (a circumstance that can seldom be contrived at will!); here he shows a beautiful faith in human nature when he suggests that if the gift was too much, the recipient might make over some to brothers and sisters;
- (2) Gifts which are part of normal expenditure; and
- (3) Gifts which are not over £500 to any one donee. Under the last head he emphasises that all small gifts which would formerly have been by will ought now to be given during life.

He then deals with: (a) the saving of duty on agricultural land; (b) the purchase by the tenant for life of the remainderman's reversion (this too escapes the five years provision, being for full consideration); (c) the effect of *A. G. v. Oldham* on bonus shares issued after an absolute gift of shares (he confirms the doubts expressed above on the paper by Mr. Allen and Mr. Russell, about bonus shares issued to a trust); (d) nomination policies; and (e) discretionary trusts.

On Section 55, Finance Act, 1940, he advises that control be parted with, but warns that it is really impossible to avoid Section 46 except by "getting out" over five years before death.

An altogether valuable and thought-provoking paper.

Recent Tax Legislation

Mr. D. O. Bailey's paper *Finance Act, 1953* is a lucid and informative summary of the income tax, E.P.L., E.P.T. and death duties provisions. His comments on the extension of Section 341 loss claims, on partnership changes and on subvention payments between inter-connected companies in particular, emphasise the

fact that every change complicates the law and practice of taxation! He does not find it clear why, when on a partnership change in ownership capital allowances may now be carried forward even if assessment is on a discontinued basis, there is a prohibition against giving relief for such "carry forward" under Section 343 if the business is subsequently transferred to a company for shares. It seems that the answer is that the Crown are not yet ready to permit capital allowances to be carried forward except in the same ownership. The paper is largely factual and is a very useful commentary on the provisions, which have already been summarised in our columns.

Reliefs

Mr. J. R. Paramour deals with *Statutory and Non-Statutory Reliefs*. Many practical aspects of such homely things as child relief are brought in, such as that vocational training is now normally recognised as qualifying the child for the relief, if full time and at an educational establishment. Claims for non-residents, bank interest, etc.; reliefs under Schedules A and B, such as for maintenance claims, tithe annuities, etc.; reliefs for losses under Schedule D, error or mistake relief, scientific research expenditure, all have adequate mention. The paper concludes with a note on the vexed question of expenses for Schedule E.

In discussing beneficial occupation the author stresses a point that is seldom appreciated: that a person in beneficial occupation is entitled to deduct tax at the standard rate on the rent payable, "all sums allowed by the Commissioners being first deducted," i.e. while the repairs allowance is not deductible, such items as tithe and land tax are, and it is on the rent as reduced by such items that the tenant can deduct.

Direct Taxation in General

The most learned paper came from Professor F. Sewell Bray under the title *The Nature and Purpose of Direct Taxation*, in which he draws on his very wide reading and his own thoughts to re-examine some principles so as to gain a better understanding of the purpose of direct taxation. Starting with Adam Smith's canons of taxes in general, Professor Bray draws on Stamp, Shehab, Robbins, Marshall, Pigou, Tress, Clay, Keynes and others. As his paper is in itself more or less a summary, it does not lend itself to précis, but must be read. Most people will agree with his conclusions, among which may be mentioned the feeling that the present level of taxation on enterprise profits is so limiting enterprise savings that there is less inclination to embark upon new ventures; in circumstances of high taxation the fore-known existence of profits is rather more likely to bring about increased operating costs than resourceful asset formation so essential to holding our own in world markets; high taxation disregards the damping effects of not being able to provide for increased costs of replacing fixed assets and stocks. On the political side there are the much needed reminders that the level of Government outlay that can be borne without undue effects depends upon the real income of the nation; effort, savings and the free acceptance of risks are vital to our welfare; and "again, it should not be assumed that the State *always* has the best qualifications for spending." (What a beautiful example of English understatement!)

Taxation and Accountants in U.S.A.

Much interest was aroused by Mr. J. William Hope's *The Organisation of an Accountant's Office in the U.S.A., with particular reference to Taxation*. Starting with a short history which emphasises

the great influence exercised by the many accountants exported from Great Britain, he traces the development in the U.S.A., then turns to the work done there by accountants. It seems that in the U.S.A., as here, taxation forms the background of most of the smaller firms at least. "The American Certified Public Accountant devotes a considerable part of his professional time to taxes." Mr. Hope outlines the set-up in the Federal Government for the collection of taxes, and the responsibilities of the C.P.A. in compiling returns.

As here, there are the inevitable income tax "experts," who advertise but who cannot represent taxpayers on appeal unless they pass a test comparable to the C.P.A. examination. C.P.A.s and attorneys can be enrolled as admitted to take appeals on showing that they are of good character and repute. At one time there were disputes as to whether C.P.A.s were encroaching on the practice of law, but joint consultations between the professions have smoothed out the position considerably.

One difference from the U.K. procedure which is noteworthy is that the return has a declaration to be signed by the taxpayer and the person preparing the return that it has been examined by him and to the best of his knowledge and belief it is a true, correct and complete return. Many C.P.A.s qualify that statement, but as the author says, a disclaimer, however worded, cannot relieve the C.P.A. of responsibility if he prepares a return on the basis of information which he knows to be fraudulent, inaccurate or incomplete.

Mr. Hope states that the C.P.A. must devote much time to studying the regulations of the U.S. Treasury Department, Court decisions, etc.; must have a tax library; and must devote

a few hours each week to reading books and periodicals, etc. His summary of office routine is thought-provoking, as is his reference to the trained specialist. The similarities with our own problems outweigh the differences, and we can all learn from this paper.

Inter-connected Companies

Anything coming from Mr. Frank Bower's erudite pen is always difficult to review. His *Taxes and Inter-connected Companies* is a tabular pot-pourri! It has 68 numbered paragraphs, and starts with the division of the problem into preventive and constructive provisions, the former being the more numerous and widespread. The correction required by preventive measures is brought about by neutralising voting control!

The different conceptions of inter-connected companies for different taxes is mentioned; the conceptions for the purposes of customs and excise, for purchase tax, for stamp duties (relief from stamp duties on reconstruction), for income tax and sur-tax, E.P.L., profits tax, etc., all come under review. Subvention payments are included. Non-resident inter-connected companies get their fair share of notice, with the double tax reliefs applicable. Everyone who reads this paper will find himself a much better informed man than he was before; particularly if he remembers the concluding paragraph, he will also be a wiser one: "The law is developing. Public discussion will be useful in formulating a general consensus on certain lines which will then determine what the law of the future will be."

THE CAMBRIDGE COURSE—III

The Nature and Purpose of Direct Taxation*

By Professor F. SEWELL BRAY, F.C.A., F.S.A.A.

1. As is fitting in a course of this kind, we have felt that our main concern was with the machinery and administration of taxation. It is our job to help our clients and the Inland Revenue with proper measurements of income and capital, and to make sure that at those points where we touch the system as professional advisers we cause it to run smoothly and justly. Nevertheless, we too are taxpayers, for none of us escapes the mesh. We *feel* the burden, and when we conjoin these personal feelings with professional experiences gathered from years of watchfulness over other people's affairs, we sometimes find ourselves uneasy at the gathering momentum of direct taxation which time has revealed. It, therefore, becomes us to re-examine some principles in the hope of gaining a better understanding of its purpose.

2. It is but a commonplace to remark on the growth of activity in the public sector of the national economy. The State has brought under its canopy larger and larger commitments necessitating bigger and bigger transfers of

income to meet them. The machinery of direct taxation is a complex means of arriving at a simple end, namely: the utilisation of part of the value added by economic activity in society to the outlay needs of the central government; or, if you so prefer, a means of assessing and collecting individual and institutional contributions for application to the purposes of common spending and investment. Mrs. Hicks has recently told us that in the early 1870s total taxes amounted to about 8 per cent. of the national income; in 1953 they were approximately 40 per cent., and as most of us know 50 per cent. of the latest figure of gross fixed asset formation "is now on public account."¹ It was not so very long ago that people simply thought taxation should be equal (not that incomes should be equal), and that it should be directed to the maintenance of the revenue, not to the guidance of commerce.² We still hear echoes of this point of view.

¹ *The Budget as an Instrument of Policy, 1837-1953*, by Ursula K. Hicks. (*The Three Banks Review*, June 1953, pp. 16-17.)

² Cf. J. E. Cairnes, *Political Economy and Laissez Faire*, p. 238.

* A paper delivered at the Incorporated Accountants' Course at Cambridge on September 20, 1953.

3. Direct taxation has been with us for some years now, and as we are thinking in terms of principles it is unlikely that anything very new or original will show itself. Nevertheless, it is instructive to go back and look at what earlier writers have had to say on the subject, and to judge their views in relation to the legacies of two major wars and changing social concepts. Most of us will recognise that two wars and uncertainty in regard to future strife have perforce imposed magnitudes of strain which no one could have contemplated in the calmer moments of the past. Perhaps, after all, it is not surprising that our present tax structure looks such a patchwork job.

4. Adam Smith, influenced by the social climate of his day, thought of those expenses of the Sovereign, laid out for the general benefit of society, in terms of defence, the dignity of the chief magistrate, justice, roads and communications, education and religious instruction. These expenses are still of paramount importance, but there are interesting comments about education and religious instruction which bear repetition. Thus—"The expense of the institutions for education and religious instruction is likewise, no doubt, beneficial to the whole society, and may, therefore, without injustice, be defrayed by the general contribution of the whole society. This expense, however, might perhaps with equal propriety, and even with some advantage, be defrayed altogether by those who receive the immediate benefit of such education and instruction, or by the voluntary contribution of those who think they have occasion for either the one or the other."³

5. Adam Smith followed his chapter on the expenses of the Sovereign by a discussion on the sources of revenue, and as is well known, he enumerated the following maxims of taxes in general:

(i) "The subjects of every State ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State."

(ii) "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person." [No doubt this is still a salutary piece of advice to all concerned with the machinery of direct taxation, but I think we should have a little English fun at the odd sound of the following corollary]—"Where it is otherwise, every person subject to the tax is put more or less in the power of the tax gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself."

(iii) "Every tax ought to be so levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it."

(iv) "Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State."⁴

6. In his Newmarch lectures delivered at the end of 1919,

Stamp said that—"Indisputable as these rules may be, they are now inadequate to the practical task of bringing under judgment the many difficult issues that confront us."⁵ Accordingly he set himself the task of examining the situation from the standpoints of the taxpayer, the central government, and economic society at large. He wanted to find a practical compromise which would be best from all three points of view.

7. Elementally, the taxpayer should look at the benefits he receives from State expenditure. The costs that each person causes the State to incur should be refunded, but, of course, there are social expenditures which benefit poorer people who cannot afford to make refunds, and there are expenditures which promote socially desirable benefits, which some people do not want. Thus, at a comparatively late date in our political history, we evolved the idea that the natural means of handling the situation was to determine ability to contribute according to resource, or command over goods and services.

8. But this expedient has brought its own problem. In his day, John Stuart Mill wanted equality of sacrifice with its universal sanctions of justice and morality, and he thought of it in terms of "neither more, nor less inconvenience . . . than every other person experiences from his (contribution)." In our day, we may be left to wonder whether ability to contribute can be made coterminous with equality of sacrifice, for as our President has implied, the expropriation of wealth from the thrifty must be according to real national needs if redistribution is to be justified. Only just lately Dr. Shehab has said—"The point at which income is divided (for purposes of taxation) into necessary and superfluous must be decided not solely by the individual's needs but by reference also to national needs. An equilibrium must be struck between the two. It is in the light of both that the distribution of the national income between the private and the public sectors of the national economy must be decided by the legislature, if the best results are to be obtained."⁶

9. The trouble with all this is blatantly apparent, and since it is almost impossible to be original when discussing a political topic of this nature, I make no excuse for drawing upon other people's well expressed comments. As accountants we should be very familiar with "assumptions which are essentially *conventional* in character." Therefore, to cite Professor Robbins—"When, for purposes of discussion of . . . the effects of progressive taxation, we assume that the economic subjects are equally capable of deriving satisfaction from equal increments of income, we are certainly not even pretending to be talking about facts. If we were trying to make statements about the facts of the situation, I suspect that most of us would say that people are not equal in this respect, that their capacity differs enormously. But that, of course, would be neither here nor there. For good or for bad, what we are doing in this

³ *The Wealth of Nations*, Everyman edition, Vol. 2, p. 298.

⁴ *Op. cit.* pp. 307-308.

⁵ *The Fundamental Principles of Taxation*, p. 4. (Macmillan, 1936.)

⁶ *Progressive Taxation*, by F. Shehab. A Study in the Development of the Progressive Principle in the British Income Tax. Oxford: Clarendon Press; London: Cumberlege (1953).

connection is to make statements about the logical implications of certain conventions which, at bottom, are *political*. It is as though we had said, society will not be just, or it will not run so as to yield good results, unless we act *as if* the citizens were equally capable of satisfactions.⁷ Plainly there is much wisdom here.

10. I suppose that confiscation as a by-product of graduation has always worried politicians with an economic bent, I suspect it is still troubling them, although this time the question is cast in a different role. Again, I fall back on Dr. Shehab for elucidation.—“There is a point beyond which graduation cannot safely be carried as a permanent feature of the tax structure; evasion and disincentive are two far-reaching factors that would preclude its application in an arbitrary or extortionate form.”⁸ And so to the reviewer of Dr. Shehab’s book in *The Times Literary Supplement* who puts “the leading question of today—how to maintain the high yields of taxation which the demands of modern social welfare and of defence alike require without at the same time destroying the incentive to effort.”

11. Stamp has said that “a progressive produce tax existed in Athens six centuries before Christ, and possibly an income tax in Egypt a thousand years earlier, while in this country there was progression in the fourteenth and fifteenth centuries.”⁹ Nevertheless, so far as this country is concerned, the application of progression to incomes never became a basic principle of direct taxation until the development of those economic ideas, associated with wants and their satisfaction, which looked at utility in terms of marginal increments. Marshall, you will remember, framed the matter thus—“If we take a man as he is, without allowing time for any change in his character, the marginal utility of a thing to him diminishes steadily with every increase in his supply of it.”¹⁰ “A greater utility will be required to induce him to buy a thing if he is poor than if he is rich,”¹¹ and “the richer a man becomes the less is the marginal utility of money to him.”¹²

12. We reach the situation in which progressive taxation is thought to be justified on the grounds that “we should tax what can be spared.”¹³ But the argument does not end there, for Pigou, as it seems to me, explicitly worked his way into the field of redistribution theory. He said, “it is evident that any transference of income from a relatively rich man to a relatively poor man of similar temperament, since it enables more intense wants to be satisfied at the expense of less intense wants, must increase the aggregate sum of satisfaction. The old ‘law of diminishing utility’ thus leads securely to the proposition: any cause which increases the absolute share of real income in the hands of the poor, provided that it does not lead to a

contraction in the size of the national dividend from any point of view, will, in general, increase economic welfare.”¹⁴ Again, and with rather more force, “We must not hesitate, therefore, to conclude that, so long as the dividend as a whole is not diminished, any increase, within wide limits, in the real income enjoyed by the poorer classes, at the expense of an equal decrease in that enjoyed by the richer classes, is practically certain to involve an addition to economic welfare.”¹⁵ And, if we should want any more convincing, there is this final pronouncement. “Among other measures of inequality the most familiar is the mean square deviation from the mean. With that criterion it can be proved that, assuming similarity of temperament among the members of the community, a diminution in the inequality of distribution *probably*, though not necessarily, increases the aggregate sum of satisfaction.”¹⁶

13. In this context perhaps we should remember that Marshall wanted the State “to use its powers for prompting such economic and social adjustments as will make for the well-being of the people at large.”¹⁷ At any rate, here we have most of the story to show us the influence of economic ideas on the progressive principle and we cannot fail to see that with the development of social aims, income redistribution has become a secondary but important feature of direct taxation. Nevertheless, I doubt whether either Marshall or Pigou looked much beyond transfers at the margins of incomes and I think we should especially notice Pigou’s proviso concerning the diminution of the national income as a whole. Surely this is a point at which such taxation becomes inimical to the economic progress of the society, and in any case there is much to be said for the contention that the process of taking away should not proceed beyond the *legitimate* needs of the State, although to define legitimate in this connection would want some doing. However, I think we can concede that some limits should be placed on very high incomes, and plainly very low incomes are undesirable.

14. I think we must all concede that any direct tax upon incomes is only possible in a mature society with some stability of government. It must be fair and equitable, and reach over the whole body politic. In general, it is desirable that a direct tax should be paid as near to the receipt of the income, on which it is assessed, as can be conveniently contrived. The current year basis of assessment always has much to commend it, and in my judgment the present delay in the time of payment of sur-tax is a cause of aggravation.

15. In a talk of this kind, I think we should also just notice a few questions of principle which are very much the concern of the central government. Stamp, having had much experience, put them in the following form. He said that—“The State as a tax gatherer has to ask and answer the following questions:

- (1) Is the proposed tax economical, or will it cost an unwar-rantable amount to get in?

⁷ Robertson on *Utility and Scope*, by Lionel Robbins. *Economica*, New Series, Vol. XX, No. 78, May 1953, p. 109.

⁸ *Op. cit.*

⁹ *Op. cit.* p. 41.

¹⁰ *Principles of Economics*, p. 94.

¹¹ *Op. cit.* p. 95.

¹² *Op. cit.* p. 96.

¹³ Paley in 1830. Cf. Stamp’s *Principles of Taxation*, p. 41.

¹⁴ *The Economics of Welfare*, p. 89.

¹⁵ *Op. cit.* p. 96.

¹⁶ *Op. cit.* p. 97.

¹⁷ *After-war Problems*, p. 317.

(2) Is it within the powers of the administration for assessment and collection, or is it too full of difficulties to be workable? Allied thereto is the question:

(3) Will it be specially open to evasion and provoke dishonesty?

(4) Will the imposition of the tax tend to dry up the source of the tax, and so prove abortive for the revenue?

(5) Does it raise political difficulties at home and provoke unrest?

(6) Does it raise international difficulties or provoke conflict with other taxing jurisdictions?"¹⁸

Most of these are obvious, but they bear re-statement. In particular, I direct your attention to number 3. If a tax is open to evasion then it is my view it is badly conceived. Legal evasion is not the same thing as dishonesty; it simply means that the implications of the tax were not properly thought out.

16. And now for a few general topics, and perhaps a few ideas, relevant to the whole discussion. I cannot help feeling that the present level of direct taxation on enterprise profits is so limiting enterprise savings that there is less inclination to embark upon new ventures. The development of new lines is always marked by some uncertainty, and surely there is less propensity to be venturesome or progressive, and so to face uncertainty, when enterprise savings are restricted. Thus, I hazard the view that in circumstances of high direct taxation a fore-known existence of profits is rather more likely to bring about increased operating costs than resourceful asset formation, and as I think we all sense, resourceful asset or capital formation is essential if we are to hold our own in world markets. Moreover, enterprise always has regard for revenue earning assets whereas collective asset formation is so often too devoted to considerations of security and long-run welfare.

17. A high direct taxation of enterprise profits which disregards the accounting implications of changing money values not only damps down progress but can encroach upon business stability at existing levels of productivity. Shipping companies, in particular, are most sensitive to these effects. I quote from a speech of the chairman of the Union-Castle Mail Steamship Company to illustrate the point. "Our wear and tear relief from taxation is based upon the actual first cost of the ships. . . . There has not been much imagination in the mental processes of those who have governed us in regard to the conundrum as to how industry is going to find the money for the necessary replacing of old plant, seeing they have prevented us from making anything like adequate provision to meet that requirement by refusing to relieve us of the penalising effect of taxation on moneys set aside for that purpose. . . . It surely cannot be over-simplification to suggest that sums definitely earmarked—frozen if need be—for rehabilitation of shipping fleets should be free from all taxation, on the clear understanding that the moment they are used for any other purpose they become subject to the full measure of taxation at the rates then currently ruling."¹⁹

I know that by now this argument has become all too

familiar. What is not so familiar is that normal quantities of stocks essential to the operating activity of a continuing enterprise involve fixed commitments of capital just as much as items of plant, and should be so treated when it comes to the assessment of enterprise profits. Surely, whatever the revenue requirements of the State, and the levels of rates necessary to meet them, it is time that the principles of direct taxation encompassed some economic principles of income measurement. I do feel that there is something serious in the statement of Sir George Christopher "that sums required to meet any enhancement in the costs of rejuvenating the fleet . . . have to be found out of taxed profits or by borrowing or by both."

18. Direct taxation is an inevitable concomitant of life in civilised society, but it can be pressed too far. Sir Henry Clay has recently reminded us that prices *secured* and profits *realised* are not the same things as prices *expected* and profits *planned*.²⁰ We know that modern enterprise is repeatedly engaged in the attempt to forecast outputs and prices, costs and profits, and, most importantly, the balance of profits over which management has the outlay decision, i.e. profits after taxation, and dividend distributions. Accordingly, entrepreneurs think of income tax as a material factor affecting prices. In the precise language of Sir Henry—"The industrialist thinks of income tax as affecting prices, because it influences his decisions and therefore the volume of business and the terms on which it is undertaken. On a single deal the risk involved is balanced against the net gain to be expected, and, if the latter is reduced too far by tax, the deal will not be undertaken. On a project for increasing output, the cost of additional material and processing, adaptation and extension of plant, and other expenses, are all calculated; if the return to be expected *after tax* is not sufficient to cover these expenses, the project will not be worth undertaking. A tax on profits thus operates as a *tax on enterprise*, and tends to raise *the cost of enterprise*."

One other point. Our President is never done with his criticism of the present range and amount of Government expenditure. He rightly regards such expenditure as an inflationary influence. The emphasis, he argues, is always on the amount to be raised by taxation rather than on the curtailment of expenditure. I do not think it is difficult to see that a too ready dependence on the revenue from taxation can very easily veil the presence of ineffective and excessive expenditure.

19. In our day we have seen the instrument of taxation used as one of the means of fostering a stable economy by way of the budget. You will remember the argument. It was the duty of the Government to counteract economic forces making for instability, and to this end budget deficits were respectable, provided they promoted a full employment of resources and were kept down to an effective minimum. Keynes made it clear that consumption and capital (i.e. asset) formation, whether on Government or private account, had to be kept in line with such real resources as were available. Thus it came about that

¹⁸ *Principles of Taxation*, pp. 103-104.

¹⁹ Speech by Sir George P. Christopher at the annual general meeting on May 28, 1953.

²⁰ *A Note on Taxation and Prices*, in *Progress*, Spring 1953. (Unilever Limited.)

taxation fell into position as one of the policy expedients of a planned economy.²¹ If the private sector failed to satisfy the real identity between savings and asset formation, then the public sector, with the aid of taxation, must redress the balance on whichever side it occurred. No doubt all would have been well if public outlay had not proved so intractable, and international equilibrium so insecure.

20. I think we do well to remind ourselves that Government outlay depends upon the real income of the nation, especially that part of it which comes through enterprise, and that, however we look at it, such outlay can only be met out of that which remains after the living necessities of

²¹ It is interesting to observe that in addition to intentional counter-cyclical changes brought about by Government action, progressive taxation produces certain automatic effects. Thus, Mr. Lawrence H. Setzer dealing with the individual income tax in the United States remarks that—"An increase in personal income before taxes tends to bring about a greater than proportional increase in income taxes by subjecting the addition to the higher graduated rates and by adding to the number of persons on the tax rolls. The rise in the disposable, after-tax incomes of households is thereby moderated. Conversely, a decline in personal incomes brings about a greater than proportional reduction in income taxes and, therefore, a less than proportional decline in the disposable incomes of households. Beyond these automatic effects are the very substantial counter-cyclical changes in disposable personal incomes that Congress may now achieve by seemingly modest alterations in the level of personal exemptions and credits and in the tax rates applicable to the first bracket of taxable incomes." (Thirty-third annual report—National Bureau of Economic Research, Inc., New York, May 1953.)

the community have been satisfied.²² This is but the bare bones of the problem. Private savings are vital, whether transferred to the central government or retained in private ownership, and, at bottom, it is for this reason that some have favoured an expenditure rather than an income tax. By far the greater part of private savings comes from corporate enterprises, but, as we have seen, it is unlikely that such enterprises will be progressive if the greater part of their savings is delivered out of their jurisdiction. Moreover, a policy which sets the sights of individuals in terms of living necessities, and the provision of a minimum security, will end up by damping effort and restricting incomes. Defence expenditure in an unsettled world is inevitable, but the costs of a collective provider, and the costs of a central administration, must never be allowed to endanger the free generation of incomes or the spirit of bold undertakings.

21. Fiscal policies then must have regard to the means available and the effect on national product. It should never be forgotten that effort, savings and the free acceptance of risks are vital to our future welfare. Again, it should not be assumed that the State *always* has the best qualifications for spending. Nevertheless, methods of taxation have to be tested by trials and errors. If they sometimes go too far, at least thereby they mark some points of strain; points which may serve to aid the course of future generations.

²² Much the same comment has been made by Professor R. C. Tress in his article *Trends in Public Finance*. (Lloyds Bank Review, July 1953.)

Romance of the English Chartered Companies

By R. ROBERT, A.C.I.S.

THE IMMEDIATE FORERUNNER OF THE joint-stock company, which has played such an important role in the economic life of this country, was the medieval institution known as the "merchant guild." Those forming such guilds assumed the right to buy all that their fellow townsmen needed, and to sell all that they produced. Often the guildsmen had their status and privileges confirmed by royal charter.

Among the most powerful of these bodies were the *Merchants of the Staple*, who held a monopoly in the export of raw wool, and the *Merchant Adventurers*, whose main business was to sell finished

cloth abroad. The financial arrangements of the Merchant Adventurers, granted a charter by Henry VII in 1503, left each individual adventurer free to trade on his own account. Capital was not placed into a common pool for general use, and profits and losses were not shared.

It was in Tudor times that the first joint-stock companies, recognisable as such in the modern sense of the word, began to function. The earliest was the *Muscovy Company*, formed in 1555, soon after the pioneering voyage of Richard Chancellor to the White Sea in search of a reputed North East passage.

But the greatest, and the one destined to be the most enduring, was the *East India Company*, which commenced its fabulous career in December 1600, towards the close of the first Elizabethan era.

The merchants, incorporated by royal charter, were granted certain privileges, or monopolies, to the exclusion of everyone else. In this particular case they obtained from the Queen the sole right to trade with the East Indian spice islands. The first tiny vessels, equipped at a cost of £30,000, set sail in 1601, rounded the Cape of Good Hope safely, and visited Sumatra,

Java, and others of the islands. Two years later the fleet was back in the Thames, with holds literally bursting with precious cargoes.

Of the subsequent career of the East India Company it can be said that it has no parallel in recorded history. Ousted from the islands by the Dutch, it turned its attention to India, and in course of time its officials came to be overlords of the vast sub-continent. Many of the more avaricious ones became immensely rich. Not until the middle of the nineteenth century were the last of its charter rights surrendered.

From a financial angle one may, perhaps, stress that the East India Company was a true joint-stock undertaking, differing radically from the merchant guilds (or regulated companies as they were called) because the merchants no longer traded each at his own risk, but combined their capitals and shared profits and losses.

This idea of forming a "joint-stock" was found to be advantageous in many different ways, and in the succeeding centuries numerous other chartered companies came into being, for colonisation or for the advancement of home industries. In fact, in the seventeenth century there was a tremendous spate of company formations, for good purposes and for bad. A justly renowned company, still going strong, is the *Hudson's Bay Company*, which received its charter in 1670 from Charles II, and was the instrument by means of which the North American continent was opened to British trade. Covering five large parchment sheets, the historic document conferred upon Prince Rupert and his seventeen fellow shareholders the sole trade and commerce of Hudson Bay and all the adjacent territories, amounting to some one and a half million square miles in area, with the mineral and fishing rights "thrown in for luck." Prince Rupert was the first governor of the Hudson's Bay Company, which was composed, in the main, of "gentlemen and aristocrats." They had, of course, their ups and downs, but on the whole the company prospered.

Other chartered companies which can only be given a passing mention are the *Virginia Company*, incorporated during the reign of James I, the *Levant Company*, in which Queen Elizabeth

herself "adventured," and the *Royal Adventurers to Africa*, who started off legitimately enough by trading for gold and ivory, but later, in Restoration times, concentrated upon slave trading.

Something more than a mere reference must be accorded to the *Bank of England*, which is (or rather was, since it is now nationalised) the greatest of all the companies to be incorporated by royal charter. The Bank came into existence for two reasons: the metallic currency was proving inadequate for the needs of the times, and King William III was desperately in need of money with which to finance a war against France. Many and diverse schemes had been put forward for a central Bank from time to time, but the one accepted by the Government was that of William Paterson, a Scot who had appeared before a Parliamentary committee in 1693 to outline a project for raising the sum of approximately £1,000,000 upon a "Fund of Perpetual Interest." The Governor and Company of the Bank of England were formally incorporated by a charter in July 1694; King William and Queen Mary were among the first subscribers, and the flotation was a huge success. Somewhat later the Bank was entrusted with exclusive rights in the issue of paper money, and even in those early days its £5 notes were regarded as the equivalent of gold. Looking back, we can, of course, see how much of the success of the "Old Lady of Threadneedle Street" was due to the privileges granted to it under the royal charter.

A less honourable story, though of incredible interest, is that of the *South Sea Company*, which began respectably enough, and at one time seemed as if it might excel in power both the East India Company and the Bank of England. But unfortunately its affairs came under the domination of an unscrupulous governor, Sir John Blount, whose machinations induced the public to purchase shares at fantastically inflated prices. The corporation was granted a charter in September 1711, under the title "Merchants of Great Britain Trading to the South Seas," and the said merchants installed themselves in great comfort and dignity in a sumptuous City building. In June 1720, as a result of the gambling mania whipped up by Blount's adroit manipulations, South

Sea stock soared to the craziest heights. A few months later, in September, it had fallen almost to zero.

The bursting of the "Great Bubble" caused the entire joint-stock system to be overhauled, and, to prevent the public being defrauded on such a scale again, an Act was passed which prohibited the formation of any joint-stock company unless incorporated by royal charter, and this Act was not repealed until the early nineteenth century.

Today the majority of companies owe their legal existence to one of the Companies Acts which have been passed during the last century or so, and the number of chartered companies is small and diminishing. Nevertheless, a few continue to play useful, indeed prominent, rôles in the sphere of overseas commerce and trade.

There is, for example, the *British South Africa Company*, founded by the empire builder Cecil Rhodes (the centenary of his birth is being celebrated this year). A charter of incorporation was granted by Queen Victoria in 1889, and under it Rhodes and his associates acquired development rights over extensive South African territories.

The list of chartered companies still active includes the following: the *British Cotton Growing Association*, the *Australian Agricultural Company*, the *Canada Company*, the *British Linen Bank*, and the *Chartered Bank of India, Australia and China*, founded in December 1853, exactly one hundred years ago. The *London Assurance Company*, the *Royal Exchange Assurance*, and the *Metropolitan Association for Improving Dwellings of the Industrious Classes* are also chartered bodies.

Last, but not least in romantic interest, we may mention the *Falkland Islands Company*, another of the "later day" chartered corporations, founded in the middle of the last century. A transaction in its shares, not so long ago, attracted attention in the City and was reported in the Press. A Stock Exchange wit referred to it as the "Admirable Crichton" of companies, in allusion to its numerous activities and truly astonishing versatility. Not only does it run a universal store (like the *Hudson's Bay Company*) but it is an accredited Ford agent, and acts as Reuter's correspondent!

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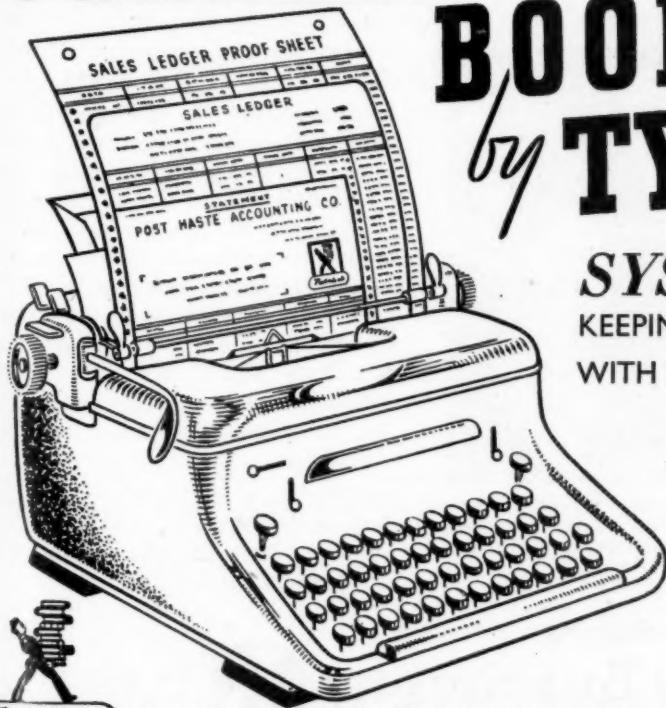
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At Lipton's self-service store in Leeds business was so good that money couldn't be taken fast enough to keep customers inside the shop moving through—and those outside were waiting...

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Space was limited, and it was essential that when shoppers had made their purchases they should be able to pay for them quickly and make room for new customers. But at the check-outs—that part of the store where the value of goods is totalled, cash taken, and receipts issued—there were hold-ups. However hard the staff worked it was proving impossible to handle transactions fast enough to get customers through the check-outs without congestion.

With this problem, Liptons invited Burroughs' collaboration in an experiment, asking one of their machine-accounting specialists to demonstrate a Burroughs Itemizing Cash Registering

Machine in action. The speed at which one girl could use the machine to register purchases, give tickets and change, was timed.

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sure, that Lipton Ltd. installed one straight away (later two more) in their Leeds shop. The increased speed it has brought to transactions there—and the consequent improvement in customer relations—has led to the installation of similar machines in other self-service stores operated by Lipton Ltd.

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For expert advice on business figuring

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Changes in Ownership

HITHERTO, ON A CHANGE IN OWNERSHIP OF A BUSINESS, THE profits have been assessed as if the business had been discontinued and a new one started on the date of the change, except where it was only a change of partners in a partnership. So long as at least one partner remained in the firm, the "discontinued and new" rules did not apply unless the whole of the old and new partners claimed that treatment.

For 1953-54 onwards, the discontinued and new rules apply to every change, with the right where at least one person continues as a partner to claim not to be so treated. Such a claim must be signed by all the old and new partners. This reverses the position.

Moreover, if such a claim is not made, but there is a continuing partner or partners, each continuing partner may claim relief against his share of profits for his share of previous losses and of capital allowances available. Any such capital allowances are to be treated as a loss made in the part of the year before the change (and will be divisible as such a loss would be divided), no matter when they in fact arose (but will not be available against income from a company if later the partner sells his interest in the business to that company for shares).

If there has been a claim not to be treated as discontinued and new, and after the change but before the end of the next year of assessment there is another change on which the business is assessed as discontinued, any additional assessments arising as a result will affect those who ceased to be partners on the first change as well as those who were partners after it.

If a person dies, his executors, etc., are the persons to make the claim he could have made, and are liable to any tax he would have had to pay. A change in executors etc., does not constitute a change in ownership.

The Act does not mention "partners" as such, but the term has been used here for simplicity. The wording of the Act covers a sole trader taking a partner, and a case where one person continues alone a business in which he previously was a partner.

Illustration (1).

A and B in partnership admitted C as an equal partner on January 1, 1954. Accounts were made up for calendar years, showing the following profits:

1951	...	...	£2,000
1952	...	...	£2,800
1953	...	...	£3,000
1954	...	...	£3,900
1955	...	...	£3,800

(In this illustration fractions of months have been ignored.)

Assessments: A and B 1952-53 £2,000, increased to 9/12ths \times £2,800 + 3/12ths \times £3,000 = £2,850.

1953-54 9/12ths \times £3,000 = £2,250.

(Above as for a discontinued business.)

A, B and C 1953-54	3/12ths \times £3,900 =	£975
1954-55		£3,900
1955-56		£3,900

(As for a new business.)

If, however, A, B and C join in so electing, the assessments will continue on the preceding year basis thus:

1952-53	...	£2,000 on A and B.
1953-54	...	£2,800, of which 3/4ths or £2,100 is the share of A and B, and £700 the share of A, B and C.
1954-55	...	£3,000.
1955-56	...	£3,900.

In that event, however, if there is a further change before April 6 1955, and on this further change no claim is made, so that the A, B and C partnership is assessed as discontinued, the assessments on A and B are subject to review as well as those on A, B and C.

Thus, if A died on July 31, 1954, the assessments would run:

1952-53	...	£2,000 on A and B.
1953-54	...	9/12ths \times £3,000 = £2,250 re A and B. 3/12ths \times £3,900 = £975 re A, B and C. (Penultimate year of assessment.)
1954-55	...	4/12ths \times £3,900 = £1,300 re A, B and C. (Ultimate year of assessment.)
1955-56	...	5/12ths \times £3,900 + 3/12ths \times £3,800 = £2,575 re B and C. (First year of assessment.)
1956-57	...	5/12ths \times £3,900 + 7/12ths \times £3,800 = £3,842. (Twelve months' profits from "commencement" of B and C.)

1956-57 ... £3,800 (preceding year).

It should be noted that the addition to "actual" in 1953-54 affects A and B as well as A, B and C.

Illustration (2).

R and S were in equal partnership until R died on July 5, 1955. Profits—Years to May 5: 1953, £1,200; 1954, £1,300; 1955, Less £600; 1956, Profit, £840; 1957, £900.

Assessments and Claims

(a) Normal:

1954-55 On R and S £1,200

This is the penultimate year and "actual" is 1/12th \times £1,300—11/12ths \times £600 = £442 loss. The assessment therefore stays at £1,200. Either partner (or both) can claim under S.341 in respect of his share of the loss, viz. £221.

1955-56 On R and S £900

This is the actual profit from April 6 to July 5, 1955, viz. 2/12ths \times £840—1/12th \times £600 = £140—£50.

On S £630

This is the actual profit from July 6, 1955 to April 5, 1956, viz. 9/12ths \times £840.

If S did not claim under S.341 in 1954-55 in respect of his share of the loss, he can bring forward under S.342:

His share of the trading loss in the year ended

May 5, 1955 £300

Less absorbed in computing the assessment on

R and S for the earlier part of the year .. 25

£275

Although the loss is for a period ending on a date (May 5) in the year 1955-56, the period July 6, 1955 (the date of cessation) to April 5, 1956 is to be treated as a "subsequent year" for the purpose of a S.342 claim.

The alternative of claiming under S.341 (as amended by S.15, F.A. 1953) in 1955-56 for the loss incurred in the preceding year, 1954-55, does not give such a favourable result.

1956-57 On S £850

This is the profit for the first twelve months of the new business,

viz. the year to July 5, 1956, or $10/12$ ths \times £840 + $2/12$ ths \times £900.

1957-58 On S £850

Strictly, the C.I.R. may determine the assessment for this year as there is no "preceding accounting year." The assessments for 1956-57 and 1957-58 may be adjusted to "actual" for both years on a claim being made under S.129 not later than April 5, 1959.

(b) Alternative:

If R's executors and S both claimed (not later than July 5, 1956) for the discontinuance and commencement rules *not* to apply, the assessments would be made throughout on the preceding accounting year basis, thus:

1954-55 On R and S £1,200

Either R or S can claim under S.341 in respect of £221, calculated as shown above.

1955-56 On R and S £325 (i.e. $3/12$ ths of £1,300).
On S £975 (i.e. $9/12$ ths of £1,300).

As both R and S were carrying on the business in the year 1955-56 either or both of them can claim under S.341 for the loss incurred in the "preceding year"—1954-55—in so far as relief has not already been claimed.

As the trade has *not* been treated as discontinued S *cannot* treat this as a subsequent year for the purpose of a claim under S.342.

1956-57 On S nil.

1957-58 On S £840

If S has not claimed under S.341 he can bring forward £300 as his share of the loss, under S.342, and the assessment on him will be reduced to £540.

Taxation Notes

Cash Basis

IT IS USUAL FOR ALL PROFESSIONAL MEN who have started business in recent years to be assessed on an "earnings" basis, i.e. the value of uncollected fees and work in progress must be brought into account to arrive at the profits of the period. There are exceptions, however. Barristers, not being allowed to sue for fees, are a notable example. They pay on a cash received less expenses paid basis. Many other professional men who have been in practice for some time are also on the cash basis, but a new practice will not be allowed to go on a cash basis in the early years, if at all.

On a change from an earnings to a cash basis, no deduction will be allowed for debts due at the date of change-over and collected in the first period assessed on a cash basis (see *C.I.R. v. Morrison*, 1932, S.C. 638). On the other hand, if a business assessed on a cash basis is discontinued, no assessment can be raised on the debts due but not received at that date (*Bennett v. Ogston*, 1930, 15 T.C. 374 at page 378).

It is clear from the judgment in *Rankine v. C.I.R.* (1952, S.C. 177) that the Revenue can at any time discard the cash basis if they do it in an original assessment, but they are not entitled to make an additional assessment for that purpose. Nor can the Revenue by trying to assess outstanding fees under Case III or Case VI get round the fact that such fees escape

taxation (*Stainers' Exors. v. Purchase*, 1951, 1 All E.R. 1071).

It is likely that the cash basis will be admitted even more sparsely in future.

Interest on Estate Duty

Simple interest at the rate of two per cent. per annum is payable on estate duty on personal and movable property from the date of death until the date of payment. Income tax is not deductible.

In the case of real property, the duty is due on the anniversary of death, unless the property is sold earlier, when it becomes due on the date of completion of the sale. Interest runs from the due date to the date of payment. Leasehold property is treated as personalty for this purpose, and attracts duty from the date of death.

Where the option is exercised to pay duty on realty by eight equal yearly or sixteen equal half-yearly instalments, interest runs from the anniversary of death on the amount outstanding from time to time. The balance can be paid at any time, however, with interest to the date of payment. If the property is sold, the balance must be paid at once.

The estate duty on an annuity or other definite annual sum purchased or provided by the deceased in respect of which a beneficial interest arises on his death may be paid by four equal annual instalments, the first being due

on the anniversary of death; after the anniversary, interest is added on the unpaid duty and is payable with each instalment. If the right to pay by instalments is not exercised, interest still runs only from the anniversary of death.

If the duty on an interest in expectancy is not paid on the value at the death, it is not due till the interest falls in, and it is from the due date that interest on the duty runs.

The duty on sales of timber becomes due as and when the sale money is received, and interest runs from that date. The same applies to the duty on sales of objects of a national, etc., interest (in the event of breach of an undertaking to keep the objects in the United Kingdom, and to preserve them, etc., the date of the breach is treated as the due date of the duty).

Where a corrective account has to be made (as is usual in most estates), interest is chargeable on the duty still due on personalty from the date of death, and on realty from the anniversary of death. If too much duty is found to have been paid, the excess is returned with the interest which was actually paid on it. Interest is not allowed for the period the Revenue have had the excess duty, except where the over-payment was due to an over-valuation by the Commissioners (interest is at 3 per cent.) or where the Court orders interest to be paid. (The rate is fixed by the Court.) Income tax is deducted from the interest *paid* by the Revenue on duty while it was in the hands of the Revenue, but not on interest *repaid*.

In calculating interest, the day of the due date is ignored, but the date the

account reaches the appropriate office is included. Interest is not charged while the amount is in the office unless there is delay in payment after assessment.

The interest paid on estate duty is not an annual payment deductible for income tax nor has it to be "kept in charge to tax," but it may be "grossed up" and deducted for sur-tax. For 1953-54, the gross amount is 20/11ths of the net; for 1952-53 it was 40/21sts.

E.P.L.—Relief on Additional Output of Minerals and Metals

The Treasury have certified under Section 56 of the Finance Act, 1952, as extended by Section 27 (3) of the Finance Act, 1953, that an increase in output over output at the normal rate of the following minerals is essential in the national interest:

anhydrite	silica and moulding
gypsum	sands
pyrites	chalk
pitchblende	limestone
coal	marl
fuller's earth	clay
sand and gravel	brick earth
shale	china stone

This certificate follows a previous Treasury certificate under Section 56, Finance Act, 1952, covering crude petroleum, asbestos and the following metals:

chrome	manganese
cobalt	molybdenum
columbium	tantalum
copper	tin
gold	tungsten
iron	vanadium
lead	zinc

If, in the Excess Profits Levy period, a body corporate makes profits from an output exceeding its normal rate of output in its trade or business of mining any of these metals, getting crude petroleum from oil wells, or winning from a natural deposit of a wasting nature any of the minerals which are covered by the Treasury certificates, it may, by giving written notice to its Inspector of Taxes before the end of 1954, claim a measure of relief from Excess Profits Levy on the basis laid down by Section 56, Finance Act, 1952, in respect of the normal rate of profit on the additional output.

Treasury regulations are to be made for carrying Section 56, as extended,

into effect and for determining what is to be taken as the normal rate of profit and the extent of any additional output.

Maintenance Claims

It is well known that maintenance claims are accepted when signed by an agent who acts regularly for the taxpayer in question. This arose originally in the case of landed estates, where the estate agent managed the whole estate and made the claims. The practice has grown of accepting the signature of other agents, but it seems that the official instructions to the Revenue's staff may not have covered them all. It is understood that a recent review has taken place, as a result of which the practice will be uniform. Accountants' signatures will therefore be accepted, except that it will still be necessary for the client to sign any authority to repay through the agent.

Clitas

The arrival of service release 13 of *Clitas* (Current Law Income Tax Acts Service—Sweet & Maxwell Ltd.) emphasises the difficulty of keeping up to date in income tax law, and is welcome as a means of doing so, even if it involves a great deal of reading!

The release brings pages of the Income Tax Act, 1952, amended to reflect the changes made by the Finance Act, 1953.

Building Societies' Taxation

The Building Societies Association has issued a booklet setting out the income tax arrangements for 1953-54, with specimen computations. The booklet is obtainable for 2s. 6d. from the Association.

The important change from the 1952-53 arrangements is that where distributions of profits are assessable at the standard rate of tax, that tax itself is assessable at the standard rate and not as heretofore at the composite rate; and the composite rate for 1953-54 is 4s. 10d. as against that for 1952-53 of 5s. 2d.

The following illustration (reproduced from the booklet) of the computation for a Society which has elected to be assessed on a "current

year" basis shows the effect of the new arrangements.

1953-54—Basis year ended December 31, 1953

	£	£
Whole profit as adjusted	..	120,000
Less: Distributions at—		
(a) Composite rate ..	..	77,000
(b) Standard rate ..	..	3,000
Income tax thereon by grossing		
on:		
(a) £77,000 × 240	—	£77,000
182		
	=	24,538
(b) £3,000 × 20	—	£3,000
11		
	=	2,455
Gross amounts of rents payable under long leases, etc.	..	50
	—	107,043
Excess of whole profit ..	..	£12,957

Computation of Income-Tax Liability

	£	£
Composite rate on:		
(a) ..	..	77,000
Income tax thereon	24,538	
Standard rate on:		
(b) ..	..	3,000
Income tax thereon	2,455	
Gross rents, etc. ..	50	
Excess of whole profit ..	..	12,957
	—	£18,462 at 9/- 8,308
Liability 1953-54	..	..
	..	£32,846

Research Studentship in Economics

The Degree Committee of the Faculty of Economics and Politics of the University of Cambridge hope soon to elect to a Research Studentship in Economics if a candidate of sufficient merit presents himself. The studentship will be tenable from January 1, 1954 (or such other date as may be determined) for a period not exceeding three years, and its value will be not less than £150 and not more than £400 a year, depending on the pecuniary circumstances of the student. Any person of either sex is eligible who before January 1, 1954, will have graduated in any university other than Cambridge, and who on that date will not have attained the age of 27 years. Candidature is also open to registered research students of the University of Cambridge who are not graduates of any university, and in exceptional circumstances to other persons who hold no degree. In applying the limit of age, an allowance will be made for national service.

Applications must reach the Secretary of the Board of Research Studies, The Old Schools, Cambridge, not later than November 1, 1953, and must be accompanied by prescribed statements and certificates, including a declaration that, if elected, the applicant intends to become a candidate for the degree of Ph.D. in the University of Cambridge.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

INCOME TAX

Balancing charge—Sale of business to Crown—Whether business permanently discontinued—Whether Crown a person—Sale as going concern—Whether balancing charge feasible—Income Tax Act, 1842, Section 134; Schedule D, Cases I and II, Fourth Rule—Taxes Management Act, 1880, Section 62—Income Tax Act, 1918, Schedule D, Cases I and II, Rules 9, 11, Miscellaneous Rule 3—Finance Act, 1926, Sections 31, 32—Income Tax Act, 1945, Sections 17, 57(2).

Boarland v. Madras Electric Supply Corporation (Ch. June 18, 1953, T.R. 259) arose out of the exercise upon August 29, 1947, by the local government of Madras, of an option to purchase the corporation's electricity undertaking. The option had been one of the conditions of each of the licences granted by the government of Madras. The consideration, expressed in sterling, was £1,611,437 and, assuming a balancing charge to be feasible, it was conceded that the amount thereof would be "£850,000, or thereabouts," and that, in view of Rule II(2) of the Rules to Cases I and II of Schedule D and Section 31(1)(a) of Finance Act, 1926, the year of assessment would be 1947-48. The company's main contention was that, as it had been conceded that for the purposes of the case the Madras government was a branch of the Crown, Rule II(2) had no application because the Crown was not a "person" and that the balancing charge fell to be assessed, if at all, under Rule 9 in respect of the year 1948-49; but, the corporation having ceased to trade in 1947-48, no assessment could be made at all. The Special Commissioners had found as a fact that there had been no discontinuance of the trade on August 29, 1947, but that it had been continued without interruption. They had, however, held that in Rule II(2) to Cases I and II of Schedule D, the word "person" did not include the Crown, and had discharged the assessment. Upjohn, J., reversed their decision.

Apart from the legal argument, the Crown submitted that it would be a "strained and unnatural construction" whereby the position of the vendor of a business would vary according to the irrelevant factor of whether the sale was to a subject or to the Crown. On the legal issue, it was claimed and apparently conceded that the Crown was a "corporation sole" and, therefore, a "person" within Section 19 of the Interpretation Act, 1889,

and that throughout the Income Tax Acts the word must be given its ordinary wide meaning. As against this, counsel for the corporation put up a number of interesting arguments intended to show that the only safe guide was to consider the necessary construction which had to be placed on the word "person" in a taxing Act. Upjohn, J., held that there was high legal authority for going by the ordinary meaning of words and that there was no compelling reason for giving the word "person" in Rule II(2) a special and limited meaning. He found that the Special Commissioners had made a mistake.

The second point, which had not been raised before the Special Commissioners, was that the case of *C.I.R. v. Barr* (January 13, 1953, T.R. 7), briefly noted in our issue of May last at page 156, bound the Court to decide in favour of the corporation. As, owing to the apparent failure of counsel for the Crown to draw the Court's attention to the concluding words of Section 17(1) of Income Tax Act, 1945, that decision of the Court of Session was clearly in error, Upjohn, J., refused to apply it.

In an article in ACCOUNTANCY in August 1946 (page 249), the present writer was amongst the first, if not the first, to point out that the balancing provisions of the Income Tax Act, 1945, were vitiated in that enhancements in currency values of real assets due to inflation were thereby regarded as and were to be taxed as if they were real profits. *Prima facie*, the present case would seem to afford a good illustration of the economic heresy to which attention was there drawn.

SUR-TAX

Sur-tax—Undistributed income of private investments company—Apportionment—Ability to secure application of income or assets of company—Apportionment of whole income of company to holder of small interest—Whether apportionment valid—Whether apportionment appropriate—Finance Act 1922, Section 21—Finance Act, 1938, Sections 38(3), (4); 40—Finance Act, 1939, Section 15.

Burlah Trust Ltd. v. C.I.R., Halbur Trust Ltd. v. C.I.R. (Ch. May 19, 1953, T.R. 245) arose out of two tax avoidance schemes identical in nature made by a Mr. Burston and a Mr. Halperin,

joint managing directors of the Houndsditch Warehouse Co. Ltd. and between them holding a controlling interest in that company. It was agreed that the legal position in both cases was the same and that a decision in one would be equally applicable to the other. Two companies, hereafter called "Burlah" and "Halbur," each with £500 capital, had been formed in 1937. At all material times Mr. Halperin and an accountant had been the directors of Burlah whilst Mr. Burston and the same accountant had been the directors of Halbur. Up to the issues of additional shares in the companies in 1938, they had been "owned" by Messrs. Burston and Halperin respectively. Taking the case of Burlah, Mr. Burston having formed his company made a deed whereby for a period of eight years or during his life he was to pay to it such a sum as after deducting tax would be equal to three-quarters of his net dividends from the Houndsditch company. The first payment made was £78,945 in March, 1937; and on the same day Burlah had lent £79,000 to Mr. Burston at 4 per cent. interest. In 1938, Burlah's capital had been increased by creating 20,000 deferred shares of one shilling each, the voting control and practically the whole of the company's business and assets thereby becoming owned by the deferred shareholders. At the same time, Mr. Burston had made a settlement of £2,000 in favour of his five children, and the 20,000 deferred shares of Burlah had been issued to the trustees of the settlement. Under the deed, the trustees had to comply with Mr. Burston's directions in regard to the investment of the settlement funds.

No interest on the £79,000 loan had been paid by Mr. Burston, and in 1939 the unpaid interest was waived by the directors of Burlah. In March, 1941, Mr. Burston had repaid the loan by the sale to Burlah of shares in the Houndsditch company. The only dividends paid by Burlah were two of £5,000 in 1945; and it was wound up in 1946. The Special Commissioners had apportioned the whole of the income of Burlah to Mr. Burston under Section 15 of the Finance Act, 1939; but, on appeal before them, this apportionment had been discharged. On a re-hearing by the Board of Referees, the original apportionment had been restored; and the appeal before Upjohn, J., was against this decision.

The Crown relied on *C.I.R. v. L. B. (Holdings) Ltd.*, (1946, 25 A.T.C. 18; 28 T.C. 1), a case under the undistributed income of companies provisions of Section 21 of the Finance Act, 1922, as elaborated by later enactments; whilst, for the appellants, reliance was upon *Vestey's Executors v. C.I.R.* (1949, 28 A.T.C. 89; 31 T.C. 1), a case involving the provisions as to settlements contained in Section 38 (3) and (4).

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of Finance Act, 1938. Both of these cases had been to the House of Lords. In the latter case, it had been held by Lord Reid that the Vesteys' power to direct investments of the settled fund was fiduciary in character, that loans could not be lawfully made to the Vesteys except at a commercial rate of interest and that, especially as loans were separately dealt with in Section 40 of the 1938 Act, it was impossible to hold that a sum of money so lent was "payable to or applicable for the benefit of" the borrower within Section 38 (4). Upjohn, J., held that the circumstances of the case before him were quite different as also was the Section. Applying the words of Lord Thankerton in the first-named case, he held that in cases like those before him a loan to a director even at a commercial rate might be of great advantage to him and if not repaid during his lifetime it was no doubt a valuable fiscal advantage upon his death. (The soundness of this last observation is not clear.) He, therefore, held that the Referees had ample evidence upon which to come to the conclusion that a loan on commercial terms would be of benefit to Mr. Burston within sub-Section (3) of Section 15. They had, however, held that although he was not in fact able to secure that income or assets of the company would be applied for his benefit within the first part of sub-Section (3) they had also held that the directors of the company and also the trustees of the settlement were likely to act in accordance with his wishes, with the result that loans would be made to him, if requested, either upon commercial terms or upon terms more favourable. In view, however, of the *Vestey* case, Upjohn, J., held that the trustees could not lend on terms more favourable than commercial terms and the Board of Referees were not entitled to find otherwise. The latter had also in their conclusions referred to their inferences as "findings of fact." The case was, therefore, remitted to the Board for re-consideration and, further, for them to consider and state what apportionment, if any, appeared to them to be "appropriate" within Section 15 (2), a point which had not been dealt with by them.

LEGACY DUTY

Abolition of duty—Duties payable in consequence of events which occurred prior to July 30, 1949, excepted—Determination or failure of interest—Event affecting right to legacy—Interest of residuary legatee—Whether assent to distribution an event—Legacy Duty Act, 1796, Section 2—Stamp Act, 1815, Schedule III—Finance Act, 1947, Section 49—Finance Act, 1949, Section 27.

In re Cunliffe-Owen (C.A., May 12,

1953, T.R. 209) was an appeal from a judgment of Upjohn, J., and was by way of sequel to *In re Gibbs* (1951, Ch. 933; 30 A.T.C. 129), noted in our issue of August 1951 at page 309. The testator had died on December 14, 1947, leaving one-half of the residue of his very considerable estate to a stranger in blood absolutely, and, as to the other half, three-quarters to his son and the remaining quarter equally between his two daughters. The Crown claimed legacy duty on the whole of the residue, and, by reason of the doubling of the duty by the Finance Act, 1947, this meant that if the claim succeeded half would be subject to duty at 20 per cent. and the other half at 2 per cent., although by reason of certain deeds of arrangement entered into between the beneficiaries the duty claimed would be subject to modification. By Section 27 of the Finance Act, 1949, subject to the terms of the Section, legacy duty and succession duty were abolished in respect of legacies and successions derived from a testator dying after July 30, 1949, the date of the Finance Act. Nevertheless, although the 1949 exemption was not, generally, to apply in cases of death before July 31, 1949, by subsections of Section 27 it was to apply upon the happening of certain "events," and these may be generalised as being events subsequent to July 30, 1949, whereby under the provisions of the will the beneficiary's legal rights were created or where there was "the determination or failure of an interest." In *In re Gibbs*, there had been two contentions put forward upon behalf of the beneficiary, both of which had been rejected by Danckwerts, J. Here, however, there was only one of the two, namely, that, as the residue had not been ascertained, by reason of the *Corbett* decision (1938, 21 T.C. 449; 16 A.T.C. 389), the residuary legatee had no more than an expectancy, and that, when a distribution was made out of residue, an estate or interest previously existing in the executors "determined or failed." Alternatively, it was argued that when the executors assented or made a distribution to the residuary legatee there was an "event" within the Section. Upjohn, J., had followed *Gibbs*; and a unanimous Court of Appeal endorsed the Danckwerts judgment and approved the decision of the lower Court.

The abolition provisions of Section 27 of the Finance Act, 1949, followed closely the wording of Section 49 of the Finance Act, 1947, whereby the rates of legacy duty had been doubled; and Evershed, M.R., pointed out in his judgment that if the argument for the appellants was sound, whether in any particular case there was exemption or double duty payable would or might depend upon the exact date when executors chose to assent to a legacy or when they had

completed the administration of their estate. Nevertheless:

The problem, none the less, is . . . a question of what is the sensible meaning of the language used

in Section 27, although the whole contention of the appellants was that, by reason of certain decisions of the higher Courts, a certain meaning had to be attached to the language used in the Section irrespective of whether the result was sensible or not. Dealing with this contention and analysing the leading cases, *Lord Sudeley v. A.G.* (1897, A.C. 11), *R. v. Special Commissioners ex parte Dr. Barnardo's Homes* (1921, 2 A.C. 1; 7 T.C. 646) and *Corbett v. C.I.R.* (1938, 16 A.T.C. 313; 21 T.C. 449), Evershed, M.R., said these decided that pending final administration the residuary legatee was not entitled to any interest in any specific item of property,

but it is another thing to say (and it does not follow from the first proposition, in my opinion) that pending administration the residuary legatee has no interest in the estate at all or is enjoying a mere expectancy.

He held that even if it was right to regard the estate of an executor, pending distribution, as having some equitable quality in addition to the legal estate, it would be inappropriate to speak of the coming to an end of that estate as "the determination of an estate or interest" within Section 27 (2) (b) of the 1949 Act. As regards the claim that the executors' assent to the vesting or a distribution to the legatee was an "event" within Section 27 (2) (e), both he and Romer, L.J., stressed the point that for this paragraph to apply the "event" had to be "under the provision of the will," whilst what the executors did was administrative and imposed not by a provision in the will but by law. Denning, L.J., in his brief judgment, said that "stripped of all trimmings" the appellants' argument was that no legacy duty was payable on any legacy paid after the 1949 Act. He held that whilst the executor had the legal interest he had not the equitable or beneficial interest, and subject to payment of duties the legatees had the beneficial interest from the date of death, and, when the estate was administered, the interest remained intact; it did not fail or determine. The assent of the executor did not affect the nature of the right or even the enjoyment of it but only linked the right to specific property. Leave was given to appeal to the House of Lords.

The present position of the problem would, therefore, seem to be that a residuary legatee has "no estate, right or interest, legal or equitable" in the specific assets of the estate until administration is completed or distribution made or assent given. From

the date of death, nevertheless, he has an "interest" in the estate *as a fund*, determined by the provisions of the will, which interest remains unaffected in its nature by

anything in the course of administration, one to which the executors as such have never had any legal or equitable title. (So far as income tax is concerned, the law as to

income arriving in the course of administration was radically altered in 1938 and is now to be found in Part XIX of Income Tax Act, 1952.)

The Student's Tax Columns

CAPITALISED PROFITS

WHEN A COMPANY CAPITALISES PROFITS BY AN ISSUE OF BONUS shares or in paying up uncalled capital, it is admitted by the Revenue, as a result of a series of cases, e.g. *C.I.R. v. Blott* (1921, 2 A.C. 171), that the shares are capital for the purposes of the Income Tax Acts. It is difficult to see how they could be treated otherwise, as the net assets of the company remain unchanged; the shareholders merely have their equity in an altered shape.

If there is an option to take cash instead of fully paid shares, however, the position may be different. In *C.I.R. v. Coke* (1926, 2 K.B. 246), a shareholder who took cash in such an offer was held to be liable to include the cash in his income for sur-tax purposes (today this would presumably be at the gross equivalent of the cash as if it were a free of tax dividend!), but another who took the bonus shares appealed to the Court of Appeal and escaped! [*C.I.R. v. Wright* (1927, 1 K.B. 333)]. The Court emphasised the importance of looking at the intention of the company, but the position of a cash option is not too certain in view of there having been no appeal in the *Coke* case.

If capitalised profits are used to pay up bonus debentures, there is an element of doubt today regarding the real position. In *C.I.R. v. Fisher's Exors.* (1926, A.C. 395), the *Blott* decision was followed, and the debentures held to be capital in the hands of the recipients, but in *Aykroyd v. C.I.R.* (1942, 2 All E.R. 665), when the bonus debentures were redeemable by the company at any time on 30 days' notice, they were held to be income. It is therefore probable that debentures with some years to run may escape, but it is a dangerous line of country! No decision seems yet to have been made in regard to redeemable preference shares of short life, though the *Blott* case covers a normal bonus issue of such shares.

A dividend out of capital profits is capital for income-tax purposes, but a distribution of assets (e.g. shares in another company) otherwise than out of capital profits is income and must be grossed up for sur-tax purposes. Moreover, if a dividend is paid and used by the shareholders to buy or pay up shares, that dividend (unless it is out of capital profits) is income [Cf. *Roe v. C.I.R.* (1924, 8 T.C. 613)]. Capitalisation, to be effective, must be done by the company and by the proper steps.

A distribution by a liquidator, even if it can be traced

to undistributed profits accumulated while the company was a going concern, is capital [*C.I.R. v. Burrell* (1924, 2 K.B. 52)].

For profits-tax purposes, the same rules apply, except where modified by the Acts in the following respects:

- (1) Any release of assets is a distribution affecting the rate of profits tax and distribution charges;
- (2) A capitalisation of profits since April 6, 1949, which is followed by a reduction of capital after April 10, 1951, or a reduction of capital after that date followed by a capitalisation of profits, is regarded as a distribution on the second event in each case, whether the capitalisation is in shares or loan stock.

The position as between life tenant and remainderman in regard to capitalisation of profits is based on the principles underlying the *Blott* decision, which was based on the decision in *Bouch v. Sproule* (1887, 12 App. Cas. 385 H.L.) where it was decided that bonus shares paid for out of capitalised profits were capital of the estate, not income of the life tenant. In that case, there was actually an option to take cash, but the shares stood at a premium so that it was not profitable to take cash, nor was it the intention of the company that the option should be exercised. The company's intention is all-important, and even where a testator had willed "dividends, bonuses and income" to the life tenant, it was held that bonus shares were capital of the estate [*Re Spier* (1924, 1 Ch. 359)].

In an option given to take cash, where it is the obvious intention that cash should be taken, the cash is income [*Re Despard* (1901, 17 T.L.R. 478)]. A trustee given an option must take the greatest benefit offered by the company [*Re Evans* (1913, 1 Ch. 23)].

A distribution of capital profits is different; it is income of a life tenant [*Hill v. Permanent Trustee Co. of New South Wales* (1930, A.C. 720)]. The fact that it escapes sur-tax does not prevent this being the position between beneficiaries [*Re Doughty* (1947, Ch. 263)]. Capital profits distributed by the transfer of shares in other companies are likewise income of the life tenant, though not sur-taxable [*Re Sechiari* (1950, 1 All E.R. 417)].

A bonus distribution out of a company's share premium account is capital in any event, it seems, since the Companies Act, 1948, made that account capital [*Re Duff* (1951, Ch. 923)].

The Month in the City

Bank Rate Reduced

THE FEATURE OF THE PAST MONTH WAS OF course the decision of the Bank of England, no doubt after the fullest consultation with the Chancellor, to reduce Bank Rate from 4 per cent. to 3½ per cent. on Thursday, September 17. This was described as a technical adjustment, bringing official Bank Rate into line with the rate charged to the discount market for loans against Treasury bills. But, technical or not, it was followed by cuts not only in overdraft rates which, subject to minimum rates, are tied to Bank Rate and fell ½ point, but all other rates, which were cut about ¼ point. The immediate result in the discount market has been a cut of that much in the tender rate for Treasury bills and a rather larger fall in other rates. This is a natural result of the unification of Bank Rate and the old 3½ per cent. rate for loans from the Bank to the market against bills. On the stock exchanges, there was a general tendency to mark up all prices, but the real impact was in the Funds. Among these the greatest effect was on "irredeemables," which, despite some recent "tipping," had tended to lag in the protracted gilt-edged rise. Some of these registered rises of some 3½ points in less than twenty-four hours.

Earlier Movements

In so far as there were any real features in the stock market prior to the fall in Bank Rate, they consisted in a slight reversal of the upward trend of industrial equities, quickly followed by a recovery and fresh relapse, and an accentuation of the weakness of gold mining shares, prices for established mines having fallen some four per cent. in less than three weeks. This carries them to levels which have not ruled since the early 'thirties, despite the fact that costs have not yet risen enough fully to offset the effects on profits of the 1949 devaluation. One would say that this suggested that the fall had gone too far, were it not for the fact that costs are still rising and that the political risks attaching to investment within the Union are considerable. As to industrial ordinary shares, they had risen fairly steadily for three months, taking that length of time to recover the loss sustained in the few weeks following the Budget, and it may be that some reaction was due. But there are other possibilities of some importance which are

likely to become actual factors in the near future. Two of these are the impending issue of steel company shares and the possible results of the Electrical Trades Union guerrilla strike which has been in force ever since we last wrote. Further, the T.U.C. annual meeting, although it tended to give a victory to the moderates, attracted attention to the fact that there are still many people who believe that the worker can be made prosperous by impoverishing the investor. It is also possible that the weakness of Wall Street has suggested that an American recession is nearer than had been generally believed and that this has tended to depress prices. Before the Bank Rate change, there were small rises in all fixed interest stocks, a sharp fall in gold mining shares, and little movement in industrials. The final result is shown in the following comparative indices of *The Financial Times* between August 24 and September 21: Government Securities, 97·84 to 100·78; fixed interest 109·11 to 111·43; industrial ordinary, 124·5 to 126·0; gold mining, 87·64 to 81·75.

East African Issue

It will be noted that, while most sections are higher, the best rise is in the Funds. This has happened in face of the fact that the only capital issue of material importance has been one of £5,709,000 4 per cent. stock by East Africa, the stock maturing in 1968-71 and being offered at 95. This was substantially over-subscribed and, while applications up to £1,000 were satisfied in full, really large amounts received only some 40 per cent. The strength of the Funds before the reduction in Bank Rate may have owed something to the coming steel issues, which are, essentially, a conversion of Government securities into equities, but it is also a reflection of the fact that in finance nothing succeeds like success. Although the level of U.K. exports leaves something to be desired, and although the addition to the gold and dollar reserves is somewhat smaller—even before the special capital payment to Canada—the Government is holding its own in the country and is doing rather better than that in the economic sphere overseas. It is now widely believed that inflation has been pumped out of the system and that any general price rise will be very slight, while there may be some fall. Less attention is

paid at the moment to the fact that an unduly high rise in wage rates, unaccompanied by an increase in output, would not only affect industrial profits but also jeopardise all that the Government have achieved to date.

Money Rates and the Dollar

Until early in the month, the improvement in Stock Exchange securities had gone hand in hand with lower rates for Treasury bills at the weekly tender. Increased borrowing on bills had done nothing to halt the rise in the price paid for them, and this was explained to some extent by the belief that sterling balances were accumulating and that the investment of these in bills forced up the price against the market syndicate. However, on the first Friday of the month, following an offer of £300 million of bills, the market was driven into the Bank, when the trend of rates was temporarily reversed. Whether there was any direct connection or not, this step by the authorities followed almost immediately upon a drop in the rate of sterling on New York below 2·81 for the first time for some months. Since then the weakness has continued and some ten days later the rate fell to the lowest since end-October 1952. The weakness is probably the delayed effect of the adverse conditions prevailing in sterling area trade at the height of the summer, accentuated by a number of technical points, including the longer life of acceptance credits, and by the debt payment to Canada. In any case it is a reminder that we are far from being out of the wood.

Aviation Finance

Sales of aircraft are beginning to play a major role in the field of exports and it appears that the buyers are able to demand and obtain substantial credit from the suppliers. To meet this demand there has been set up a new institution, *Air Finance*, under the leadership of Lazard Brothers, Erlangers and Morgan, Grenfell & Co. The capital of the concern is to be £1 million and powers are to be sought to borrow ten times that amount from the Finance Corporation for Industry. In addition the company will enjoy ordinary facilities for bank credits and the co-operation of the Export Credits Guarantee Department. There is nothing new in the extension of credits of considerable length to overseas customers, but nothing on this scale has been common outside the shipbuilding industry, which has its own methods of finance. It seems probable, however, that there will be buyers of heavy engineering equipment, including electrical equipment, who may qualify for similar treatment. If this is so, the sums involved will be substantial.

Points From Published Accounts

Revenue Reserves

THE REPORT OF *Edgar Allen*—WHICH ACCOMPANIES a set of excellently presented accounts—states that the various revenue reserves must be regarded as still required for the purposes for which they were originally set up, in view of the expenditure since incurred and progress made in fulfilment of those purposes. The word “despite” would seem rather more appropriate than “in view of,” especially since the report goes on to say that the directors decided “that, for the time being, these reserves should be carried forward intact, and their position reviewed at a later date.” The amount set aside for pensions lies, with the future tax reserve, suspended between revenue reserves and current liabilities. The report states that the amount has likewise been carried forward unchanged, pending final apportionment of the cost of the modifications and rearrangements of the pension scheme (now in force) as between current revenue and the reserve previously made. The whole of the expenditure in respect of pensions contributions during the year has been charged in the profit and loss account. The implication is that part of the revenue reserves may be free reserves.

In general, the problem of correctly designating reserves and provisions may become increasingly important, particularly if there is a marked deflationary trend.

The Dutch Way

The 1952 report of *N. V. Philips' Gloeilampenfabrieken* reaches us from Eindhoven in Holland, and a very impressive document it is. Initial surprise that it was printed in English gave way to the realisation that the company has trading connections in many parts of the world. The Board's report states that it follows with great interest the comments of the financial world and the Press, “in order that the views of shareholders and third parties regarding the manner and presentation may be taken into account, in so far as business interests allow.”

One accounting practice that is unusual, at least when good profits are being earned, is to charge falls in replacement values to replacement reserve. But so, for that matter, is the practice of segregating finished products from raw materials and semi-manufactured goods in the balance sheet. For the peace of shareholders' minds it is perhaps as well that the practice is not

general in the United Kingdom! The principle enunciated in the report is that “a rise in the replacement value of the assets is not regarded as profit, and conversely, of course, a fall in the replacement value does not mean losses so long as there is a revaluation reserve to cover them.”

Besides showing trading stocks at replacement value the company also shows fixed assets, less depreciation, on the same basis. Precisely where this gets shareholders it is difficult to see. Admittedly, it puts the true value of the undertaking into focus, and in a political context that seems desirable; but it does not put the fixed assets replacement problem in perspective. A note to the accounts states that the change in book value of fixed assets on account of revaluation to replacement value was negligible in 1952. If British companies generally were to revalue their fixed assets many investors would probably rub their hands with glee, when, in fact, they should probably be bemoaning the fact that the assets are wearing out rapidly and that the liquid resources for replacement are not possessed by their companies.

The Philips' report is extremely well presented and illustrated, and some of the statistics covering the past six years are of considerable interest. Mention may be made of world turnover with third parties, profits (both before and after tax) as a percentage of turnover, fixed assets and current assets at replacement values, and the net interest of shareholders. Clearly, there is little if anything that the Dutch have to learn in accounting presentation from this country.

United Dairies Deferred Repairs

An unusual position has been built up over a period of years by *United Dairies*, and the decision to rectify it in the latest accounts suggests that there has been some very hard thinking, although no comment is made in the reports of the directors and auditors. For several years a deferred repairs provision has appeared unchanged at £1,132,203 in the accounts. Now in his latest speech the chairman has this to say:

In the main all repairs to buildings, plant and machinery that had to be deferred during the period of excess profits tax have now been carried out. The cost of these repairs during the six years ended March 31, 1953, has been charged against current trading, and not against the provision made for deferred repairs. This provision, amounting to £1,132,203, is therefore

no longer required and has been written back and brought into the appropriation accounts of the subsidiary companies concerned. There has been taken to general reserve in the subsidiaries' accounts £750,000, and the balance of £382,203 becomes an addition to the undistributed profits of the subsidiary companies.

What this appears to boil down to is that repairs were charged against profits when they could not be carried out and have been charged against later profits when they could be carried out. In other words, by following the latter practice the company has built up a reserve of £1,132,203, called it a provision, and amortised it as a provision out of the profits of later years. The metamorphosis of a provision into a reserve is not a freak, but when the change takes place over a period of years it may be conceded that the profits outcome is being regularly understated.

Before or after Tax?

Should a company be content to strike a profit before tax? Or should it go further and strike a net profit after tax? The matter has been discussed here before. If companies are content merely with a profit before tax then it seems a reasonable request that they should enlighten shareholders by showing dividends at their gross as well as net amounts. Some of the idealistic hopes that have been voiced in this section of ACCOUNTANCY will have to be pigeonholed.

On a lower plane, however, it does seem that *Swarts and Wells* should have struck net profits after tax and after minority interests. Instead, shareholders have to do their own calculations of the margin over dividends, while noting that a substantial tax repayment has been brought to credit. By means incidentally, the company has made a block of shares available to its employees on very favourable terms, and it is certain that not all of the employees will find the profit and loss account easy to understand.

An Unusual Footnote

A helpful, if unusual, footnote in the *Richardsons Westgarth* accounts reads as follows:

The reduction in the tax charge this year, notwithstanding the higher amount for trading profit than in the previous year, is due to (a) The difference between profits as credited in the company's accounts (no profit is taken on contracts until ascertainable after completion, and estimated losses are taken into account in valuing work-in-progress) and profits as computed for tax purposes; and (b) the lower rates of tax effective this year.

Item (b) is self-explanatory, but shareholders would no doubt have welcomed an explanation of precisely how item (a) works out in practice or in theory.

Readers' Points and Queries

This feature, started in April, 1952, has attained steady popularity as a forum in which our readers can make known, to the benefit of others, points of interest in accounting, taxation and allied subjects, and can pose their queries. We endeavour to reply editorially in the feature to queries submitted by readers, but we must make the reservation, which we are sure will be understood, that on occasions, where the issues are complicated or involve too many details, it is not possible to do so.

Readers are invited to send to the Editor (at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2) any points or queries for these columns. Readers' own replies to queries published earlier will also be welcomed.

Notice of Annual General Meeting

Reader's Query.—When the articles of a company formed prior to 1948 stipulate that seven days' notice shall be given of any general meeting, does Section 133 of the Companies Act, 1948, overrule this, and make it obligatory to give twenty-one days' notice?

Reply.—Section 133(1) expressly provides that any provision of a company's articles shall be void in so far as it provides for the calling of a meeting at notice shorter than that laid down by the sub-Section. We have no doubt that this applies to the articles of a company formed prior to 1948.

prospective benefit will warrant the cost of litigation.

Reply.—By Section 20(1) of the Finance Act, 1937, the profits for profits tax purposes have to be computed on income-tax principles as adapted in accordance with the provisions of the Fourth Schedule.

One of the "income-tax principles" applicable is Rule 3(a) to Cases I and II of Schedule D which prohibits:

Any disbursements or expenses, not being money wholly and exclusively laid out or expended for the purposes of the trade. . . .

This rule, in our opinion, disposed of the case.

It is not correct that Rule 11 of the Fourth Schedule provides as stated in the second paragraph of the letter.

By Rule 4(b) to the Fourth Schedule, Finance Act, 1937 "any interest, annuity or other annual payment," i.e. a payment within Case III of Schedule D, was not to be allowed as a deduction where paid to any person who was the director of a director-controlled company. By Rule 11 of the same Schedule the deduction for remuneration to other than whole-time service directors was not to exceed 15 per cent. of the profits or £1,500 whichever was the greater. The figures are maxima and not minima.

We think that the fundamental misconception is a misinterpretation of Rule 4(b), which has no application to remuneration within Schedule E. There is nothing in Rule 11 to say that all remuneration shall be written back other than that of service directors.

Management Expenses—Finance Companies

Reader's Query.—I refer to the Student's Tax columns in the July issue of ACCOUNTANCY, page 231. I suggest that the effect of Section 341(3), Income Tax Act, 1952, enables a finance company which is assessable Case I to obtain immediate relief for its Case I losses which include management expenses. Hence the question of making a

separate claim for relief in respect of management expenses, as such, does not arise in normal cases.

Reply.—The "normal cases" referred to would not come into a management expenses claim at all, since their business would not consist "mainly in the making of investments," nor would the principal part of their income be derived therefrom. It is where a company within Section 425 has dealing assessments that a management expenses claim may give relief. Consider the figures (years A and B):

	A	B
	£	£
Management Expenses	2,500	1,600
Profit	200	900
	—	—
Dealing profits	700	600
Dividends	2,000	1,900
	—	—

Year B: Management Expenses £1,600. Whereas Section 341 claim would be on a loss of £1,000.

Furnished Lettings

Reader's Query.—I notice that in the Student's Tax Columns of the August issue (page 265) it is stated that earned income relief can be claimed in certain circumstances, two of which are: (a) If the house is kept primarily for letting and is supervised by the owner; (b) If furnished letting is the main source of income.

Would the writer please state his authority for these two cases? I am finding it impossible to wring earned income relief from local Inspectors of Taxes in these circumstances and should be glad to know of any statutory rulings or concessionary allowances.

In the case of (a), could the house be one specifically purchased for furnished letting, and need it be necessarily lived in by the supervisor?

Reply.—The "authority" is the definition of earned income in Section 525 of the Income Tax Act, 1952, as applied in practice. The reader should refer an "awkward" Inspector to his Head Office.

The answers to the last sentence are (i) Yes: (ii) No.

Reader's Query.—In your furnished lettings example on page 265 of the August issue of ACCOUNTANCY, should not the gross annual value (G.A.V.) of Nos. 2 and 3 flats be deducted instead of the net annual value of £106? The reason why the G.A.V. should be

deducted is to compensate for the restriction of the repairs allowance in the maintenance claim. A person charging all repairs to property against Case I instead of under a maintenance claim is not restricted by the repairs allowance already given under Schedule A and, consequently, obtains an advantage over a person claiming repairs separately as in your example.

Reply.—There is no basis in law for deduction of G.A.V. and the former practice of allowing its deduction has now ceased by Revenue Head Office instructions.

Tax Evasion by Client—Accountant's Duty

Reader's Query.—I am interested in the question whether an accountant should prepare accounts and balance sheet for a client when he knows that the client has evaded the "Revenue net" for a considerable time. In the case in point the accountant has instructions to prepare accounts for the business but he is not instructed to deal with the tax affairs.

Should the accountant refuse to act for a client when he knows there is an undeclared tax liability?

Reply.—Without knowing all the facts it is difficult to give an opinion, but taking a general line, it is surely better that the accounts should be right than that nothing should be right! How can the accountant be sure that there is tax evasion? It may be that proper accounts may set in motion the machinery for putting the whole affair in order.

Capital Statements

Reader's Query.—I have read with interest the reply under "Capital Statements" on page 260 of the August issue.

In a case with which I am dealing both husband and wife hoarded moneys in the house, amounting to over a number of years a considerable sum, mainly it appears owing to an outdated objection to bank accounts. A very large amount of work had been entailed in an endeavour to account for the sources of such moneys (going back twenty years or more) and a composite statement sent to the Inspector, who comments that "it does no more than show what the position might have been." Absolute proof is impossible except for certain specific items, and even so the Revenue have their own ideas on what is proof. One is also faced with difficulty in computing living expenses and establishing the customary scale of living. As to cash

balances, there could only be proof by independent periodical counting and certification. It would indeed appear that the Revenue, in demanding "proof," are in some instances penalising the thrifty, who, if the actual facts were capable of undisputed ascertainment, have probably been guilty of no more than the—to the Revenue—incredible folly of keeping no bank account or day-to-day records.

Reply.—It may be true that the thrifty are penalised, but it is likely that there has often been earlier avoidance as well.

While the accountant must do all he can for his client, he must not overlook that the client is "on the wrong foot" in making it necessary to have an investigation at all. Evidence of hoarding in the twenty years is, of course, a valid argument of the likelihood of earlier hoarding, and the Revenue will give due weight to it.

Accounts from Incomplete Records

Reader's Query.—After a number of years' experience of the preparation of accounts from incomplete records, I have been led to consider whether it would be advisable to give distinguishing headings to the accounts drawn up from such records, so that their nature and limitations would be easily recognisable.

It would appear to be the general practice at the present time to prepare for small traders (whose records are frequently deficient) a trading and profit and loss account and balance sheet—these being drawn up, in nearly every instance, for the sole purpose of agreeing the taxation liability. In preparing them, however, certain accepted accounting practices are often departed from, e.g.:

- (a) Depreciation not being an allowable charge for taxation purposes is often ignored, and assets are shown in the balance sheet year after year at cost.
- (b) Discounts received are frequently merged in the item of purchases, as the actual payments to suppliers, adjusted for opening and closing creditors, are taken into the trading account.
- (c) The stock "valuation" is in many cases nothing more than the considered estimate of the client, which the accountant cannot check in the least.
- (d) Many items are of necessity estimates, no record being made of cash drawings and small expense items paid by cash, while the amount of trading receipts, as shown by the usually badly kept cash book, is, in far too many instances, utterly false.

For these reasons, the accounts prepared in these cases are not, in my opinion, sufficiently accurate to be termed trading

and profit and loss accounts, etc., and I would suggest that such titles as Statement of Profit (or Loss), and Statement of Affairs (or Capital Position) be used instead.

These statements would, I am sure, meet the requirements of the Inland Revenue authorities, and, with the addition of a suitable "report," would help to make it clear that they had been prepared for a specific purpose from records of a deficient character, and that their value for any other purpose was decidedly limited.

Reply.—The headings suggested are in frequent use. They cannot however affect the principle that if a qualified accountant has prepared or audited a statement of any kind whatsoever and is not satisfied that it is not based on evidence which is wholly satisfactory, it is his duty to make this clear in his report.

The auditor's position is stated in the following extract from Standard Practice in Auditing, by W. J. Back, F.S.A.A., published by the Society of Incorporated Accountants in 1937:

The auditor is employed by the taxpayer, but he accepts a duty to the Inland Revenue Department, circumscribed by the terms of his report. He undertakes that the accounts he submits afford a true view of the facts according to the best of his information and the explanations given to him, and that, subject to the reported limits of his examination, the financial statements submitted are not so stated as to be misleading in any relevant matter.

The extent of the documentary evidence and vouchers available, and the accountant's opinion on the reliability of the information given to him, vary so widely that no settled form of report can be suggested, nor can any one description of the account prepared cover all classes of statement made from inadequate records.

On the particular points mentioned:

- (a) *Where assets are shown at cost, it is normal practice to say so.*
- (b) *It is not incorrect to treat the payment to suppliers as being the cost of the purchases; it is true that there is often no separate adjustment in stock figures for discounts. The amount is usually small and the accountant exercises his own discretion.*
- (c) *It is usual for some enumeration of stocks to be made; where the figures are no more than an estimate in total this should always be indicated in the wording of the item.*
- (d) *Items which are purely estimates would be so described, at any rate in the details sent to the Inspector, and reference thereto made in the report. It can usually be arranged that cash drawings are in regular weekly amounts, and accounts paid on behalf of the proprietor from business funds should be supported by vouchers. If it were the accountant's opinion that the records of trading receipts were "utterly false," he would, of course, refuse to sign any statement which indicated that they could be relied upon, but this is surely very rare. In many cases the ratio of gross profit is known and the sales can be approximately checked by calculation; it is frequently possible to arrange for some record of daily takings, the summation of which would give a valuable close check on the cash.*

Letter to the Editor

Married Women (Restraint upon Anticipation) Act, 1949

SIR.—I have read with great interest the second part of Mr. E. E. Spicer's article, *Married Women (Restraint upon Anticipation) Act, 1949* (ACCOUNTANCY, September, pages 289-92). It would appear to me, however, that Mr. Spicer's satirical comment on the business ability of the Reverend Stephen Collins has caused him to lead his readers "up the garden." Incidentally it is the satirical treatment of clergymen correctly included under the description "fair comment"? They would appear to me to come into the category of sitting birds.

In the three alternative methods of treating Mrs. Collins's life interest, it would seem that the least advantageous has been chosen. Under the first method, that is without any revision of the previous arrangements, Mrs. Collins would have enjoyed a gross income of £4,000 per annum and on her death each daughter would have received approximately £10,000. If the second method had been followed, namely the sale of the income to a reversionary company, the daughters would still have received approximately £10,000 and Mrs. Collins would have had £29,600 to spend, which would not have been income in her hands, and would have been spread over the seventeen years and given a sum well in excess of the £900 net spendable income which had been lost through the sale to the

reversionary company. In the third course, which, according to the article, was actually put into operation, the daughters received £9,000 capital. This is less than they would have received by either of the other two methods. Further, by the transfer of £50,000 to Mr. Collins, this sum will have to be aggregated with his capital, which appears already to be producing substantial income.

It may be that I have misunderstood the article and I should be glad if Mr. Spicer, or some of your readers, will clear up the point which I have made.

Yours faithfully,

J. S. NEWTH, F.C.A., F.S.A.A.

London, E.C.2.

September 7, 1953.

Mr. Spicer replies: Mr. Newth suggests that the scheme adopted by Mrs. Collins produced results inferior to those which would have been obtained as a result of selling the life interest to a reversionary company.

With respect, I venture to suggest that he is mistaken and submit the following reasons in support of this contention:

(1) Under the scheme adopted, each daughter receives £9,000 down instead of £10,000 at her mother's death.

The present discounted value of the latter sum is £6,040 only. Further, Mrs. Collins may very possibly live to a far greater age than her

expectation of life would suggest. Both her parents are still living, as also is her maternal grandmother.

(2) Mrs. Collins acquires free capital of £55,000 as against £29,600 under the reversionary company scheme.

(3) The whole of the trust fund of £100,000 plus the unspent balance of the £29,600 would be chargeable to estate duty on the death of Mrs. Collins under the reversionary company scheme.

Under the scheme adopted, the maximum sum theoretically chargeable to estate duty would be the unspent balance of the £55,000.

(4) Mr. Newth is most grievously in error in supposing that the Rev. Stephen Collins is a "sitting bird."

Before allowing his wife to gift to him the £50,000 he insisted that she should invest the whole of this sum in immovable property abroad and then, after the lapse of a few weeks, transfer this foreign real estate to him by way of gift.

Thus, on Mrs. Collins's death estate duty would be chargeable only on the unspent balance of the £5,000 retained by her, even though she died quite shortly after gifting the £50,000 to her husband.

If Mr. Collins pre-deceased his wife, no estate duty whatever would be payable on this gift of £50,000, since it would be represented by immovable property abroad, which is exempt from estate duty in this country.

(5) Mr. Newth is surely too parochial in his outlook and should adopt a broader understanding, realising that the Collins family is undivided, both "in spirit and in truth."

The Rev. Stephen Collins can be trusted to regulate his affairs wisely, and his children know that their interests will be safe in his hands, always provided they show no signs of Methodistical leanings.

Publications

INTERNAL AUDITING. By A. C. Smith. (Sir Isaac Pitman & Sons Ltd. Price 21s. net.)

The need for both the public auditor and the internal auditor largely derives from the growth of business and the necessity for impartial verification of company accounts. The public auditor is still primarily concerned with the authenticity of annual accounts: the internal auditor is becoming more and more engaged with periodical internal accounts as an essential adjunct to his normal duties of checking accounting entries and control. This new book is therefore particularly welcome in approaching the subject almost entirely from the

management viewpoint. It is interested in dynamic organisational control rather than the static functions of the annual audit. In order to cover this field it must look at problems which occur outside those of the ordinary professional audit; and, although one could not claim that the book introduces any particularly new ideas or concepts, it considers internal auditing in a new light, discussing such points as the impact of budgetary data into the actual book-keeping system and the verification of systems of management control. The author states that many large organisations are controlled by means of periodical state-

ments, the accuracy and corroboration of which must therefore be checked, and this is the gravamen of the purpose and the objectivity of the book. The author maintains that a general study of management problems should also be part of the work of the internal audit department, and this is borne in mind throughout. In practice, of course, the internal audit department has often formed the embryo of a separate organisation and methods section.

The author admits that the internal auditor may meet technical difficulties when, for example, he has to decide on the degree of accuracy required for the particular level of management concerned with the information, and when checking some costing data, but it should be stressed that the auditor might be in a difficult position if he were regarded as a judge of efficiency,

the assessment of which is one of the purposes of the management statements which he may have to verify.

Although the chapters in this book are not so divided, the audit of industrial management accounts broadly falls into three functions—checking the figures, evaluating the system, and reporting on it—and all these are adequately dealt with. The detail on material control takes nearly one-quarter of the book. More information could well have been given on stock valuation, which can so easily (and unconsciously) ruin the efficacy of periodical statements, however accurate they may otherwise be. The subjects of the actual control of material in-and-out and carriage are competently discussed.

Further chapters follow clearly the control of the remaining elements of cost, namely, labour, variable and fixed overheads and selling expenses. Then follow the audit of finished goods entering and leaving, stock, sales invoices and credit notes. Assets and liabilities are not overlooked, although the author confines himself to the verification and control of debtors, creditors and cash. Finally, it is pleasing to see an appendix on statistical sampling methods, the use of which for auditing purposes, in this country at least, still seems to be regarded with incredulity as something quite esoteric.

The book assumes that the reader has a certain amount of knowledge of management accounts, including standard costs and budgetary control, but this need deter no one, as it is written simply and is easy to follow throughout. In reading it, incidentally, one realises again what a good training ground the internal audit department is for future executives. The book should be welcomed by both internal auditors and professional and cost accountants.

J. D. N.

BUSINESS FINANCE. By Professor F. W. Paish, M.C., M.A. (Sir Isaac Pitman & Sons, Ltd. Price 12s. 6d. net.)

Professor Paish sets forth in general terms the sources of finance for limited companies at different stages of their development. In leading up to this main subject and in digressions from it, he comments on the nature and real source of capital, the risks attendant on its provision and their dispersal among different classes of providers of capital. He draws attention to the great burden of corporate taxation in recent years and to industry's correspondingly decreased ability to finance

capital requirements from retained profits. Using a simple example, he explains the immediate effects of inflation and how these are accentuated when taxation is heavy. In his preface, he indicates how serious he considers the problems of industrial financing—problems that are created by the virtual elimination of the comparatively wealthy risk-taking private investor and his replacement by the public authorities and the big insurance funds.

The continued application of conventional accounting methods during periods of swiftly changing money values is criticised, and some industrialists will be gratified at the suggestion that their losses of the past year or so may be as illusory as were earlier profits. Few accountants nowadays defend conventional methods in any absolute sense, but no generally acceptable alternative has yet emerged. Professor Paish leans towards some system involving the weighting of historical costs in accordance with legally binding price indices. This might produce odd results in individual companies, but Professor Paish would presumably contend that, for industry as a whole, it would be a change for the better. It is at any rate desirable that the problem and the possible solutions should be ventilated as widely as possible, for apart from the internal distortions arising from the over- and under-statement of profits in boom and slump respectively, a secondary psychological effect is to encourage industrial investment when it is least and discourage it when it is most desirable—so accentuating the swings of the trade cycle.

Many financing problems depend for their solution upon a proper estimate of the value of the company as a going concern. It is refreshing to see it stated succinctly that this value is normally a mathematical factor of expected maintainable future profits and that the common attempt to value by reference to the current market worth of physical assets is unrealistic. As is pointed out, a contented, co-ordinated, efficient staff is commonly the most valuable asset of all.

Company directors may feel that too much is made of their opportunities for bamboozling investors in holding companies and their subsidiaries. Since 1948, holding company accounts have been as informative as those of other companies of comparable trading complexity, and the criticisms here made are surely historical rather than fair current comment. Similarly, on scrutiny after the event many capital reconstruction schemes may appear to have been unfair to preference shareholders; it is another matter to draw the implication that this derives from directors' pre-occupation exclusively with the welfare of equity shareholders.

W. R. L. W.

MODEL QUESTIONS AND ANSWERS FOR THE FINAL EXAMINATION of the Institute of Cost and Works Accountants. Also MODEL QUESTIONS AND ANSWERS FOR THE INTERMEDIATE EXAMINATION. By G. W. Briggs, A.C.W.A. (Gee & Co. (Publishers), Ltd. Price 5s. each book.)

PRINCIPLES OF SOUTH AFRICAN COMPANY LAW. By Eric Emmett, K.C., M.A., LL.D. and Trafford B. Barlow, B.A. (S.A.), LL.D. Third Edition. (Juta & Co., Ltd. P.O. Box 30, Cape Town. Price 35s. net.)

CITY OF LEEDS. ABSTRACT OF ACCOUNTS 1951-52. ESTIMATES 1953-54. (City Treasurer, Civic Hall, Leeds, I.)

COUNTY BOROUGH OF WEST HAM. A FINANCIAL SUMMARY for the year ended March 31, 1953. (Borough Treasurer, Municipal Offices, The Grove, Stratford.)

DELEGATION OF SERVICES WITHIN COUNTIES. A Factual Survey. By J. R. Sampson, F.I.M.T.A., A.S.A.A. (Institute of Municipal Treasurers and Accountants, 1, Buckingham Place, London, S.W.1. Price 25s. post free.)

QUESTIONS AND ANSWERS ON SECRETARIAL PRACTICE. By G. K. Bucknall, A.C.I.S. Revised by R. C. Hetherington, F.C.I.S. (Sir Isaac Pitman & Sons, Ltd. Price 15s. net.)

CONSEQUENTIAL LOSS INSURANCE. A comparison between practice in the United States and in the United Kingdom. By L. M. Currie, A.C.I.I. (Chartered Insurance Institute, 20, Aldermanbury, London, E.C.2. Price 2s. net.)

BOROUGH OF WATFORD. SUMMARY OF ACCOUNTS for the year ended March 31, 1953. (Borough Treasurer's Department, Town Hall, Watford.)

C.P.A. PROBLEMS AND QUESTIONS IN THEORY AND AUDITING. By Jacob B. Taylor, M.A., D.Adm., C.P.A., and Hermann C. Miller, M.A., C.P.A. Fourth edition. (McGraw-Hill Book Company, Inc., New York, Toronto and London. Price 56s. net.)

MURRAY AND CARTER'S GUIDE TO INCOME TAX PRACTICE. By Roger N. Carter, M.Com., F.C.A. Edited by Herbert Edwards, M.A., assisted by Alan M. Edwards, B.Com., F.C.A. Seventeenth edition. (Gee and Co. (Publishers), Ltd., London. Price 55s. net.)

WHILLANS'S TAX TABLES AND TAX RECKONER, 1953-54. By George Whillans, F.I.B., F.T.I.L. (Butterworth & Co. (Publishers), Ltd. Price 5s. per copy; six to 24 copies 4s. 6d. each; 25 copies 4s. each.)

ILLUSTRATIONS TO INCOME TAX. By A. S. Silke, M.Com., C.A. (S.A.). Fifth edition. (Juta & Co., Ltd., Cape Town and Johannesburg. Price 67s. 6d. net.)

Legal Notes

Contract and Tort—Recovery of Excess Commission from Agent

In Rivoli Mats Ltd. v. Gooch (1953, 1 W.L.R. 1190), G. was a selling agent under an agreement by which he was to receive 10 per cent. commission on all goods sold by him and £125 a month was to be paid to him on account of the commission which was to accrue due to him. After a few months this sum of £125 a month was reduced by agreement to £95, but even so when the agency ceased G. had been paid £389 more than the total commission which he had earned. The company claimed back this sum on the ground that it was money lent or that there was an implied term in the contract that it should be repaid. Hallett, J., held that they were entitled to recover the money. The sums paid monthly were advances of commission and the principle was that if a payment was made in respect of something which it was expected would occur in the future whereby money would be earned, and if that which was anticipated did not occur and the money never was earned, the money which had been paid could not be retained by the recipient.

In giving judgment for the company, his Lordship declined to follow an earlier decision of McNair, J., on rather similar facts in **Clayton Newbury Ltd. v. Findlay**, a note of which is now given in 1953, 1 W.L.R. (page 1194). It is to be hoped that the Court of Appeal will soon have an opportunity of resolving any doubt that may remain; meanwhile it is desirable that when agreements of this kind are made the sums agreed to be paid in advance should be less than the total remuneration anticipated and that an express agreement should be made about the repayment of any excess if the advances exceed the amount earned.

Executorship Law and Trusts—Appointment to Children and Purchase of Children's Interest.

In **Re Merton** (1953, 1 W.L.R. 1096) a fund had been settled upon W. for life, with remainder to such of her children as she should appoint or, in default of appointment, to her children in equal shares. W. had one son and two daughters. The son was of unsound mind and W. considered that it would be useless and wrong to

appoint any share to him: she therefore made generous provision for him from other moneys and by her will appointed the trust fund to her two daughters in equal shares. She was then advised that considerable death duties might be saved if she appointed the fund to the two daughters by deed and then purchased their reversionary interests at their full value. This she duly did and the question arose whether the transaction was valid.

Wynn-Parry, J., said that it could only be held to be an invalid transaction, and even then only partially, if it could be shown that there was some inflexible rule that where appointor and appointee were parent and child the appointor who appointed in favour of the child and then purchased the interest of the child could not benefit thereby beyond the interest which the child would have in the fund had the appointment never been made. His Lordship held that there was no such inflexible rule and that the transaction was valid.

Executorship Law and Trusts—Duty of Trustees to Provide Information

H. by his will left a fund upon trust for "my children or child (if only one) living at my death who shall attain the age of 21 years." At the time of his death H. had three children all born to his second wife during the subsistence of his first marriage and therefore illegitimate. Before the Court of Appeal there was evidence that at the time of making his will H. was, and knew himself to be, incapable of having further children. On this evidence the Court held in **Re Herwin** (1953, 3 W.L.R. 530) that the illegitimate children were entitled to take the fund as the evidence displaced the ordinary presumption that "children" meant only legitimate children.

The evidence of impotence had not been before the trial Judge and the children had to ask leave to call this evidence before the Court of Appeal. The Court said that if this had been an ordinary hostile action leave might well have been refused, but these were administration proceedings in which the directions of the Court were sought and it was the duty of the administrators to lay before the Court all the facts which they had in their knowledge or

possession which might assist the just determination of the question raised. If in such proceedings it appeared or came to the knowledge of plaintiff executors or trustees after the hearing in the first Court that other facts should have been brought to the attention of the Court, it might well be their duty to bring those matters before the Court even at that late stage. In this case the widow was one of the plaintiff administrators and had knowledge of H's impotence: it was not surprising that she should not have told her solicitor about such intimate matters or that the children did not question her about it. In all the circumstances it was right that the evidence should be admitted.

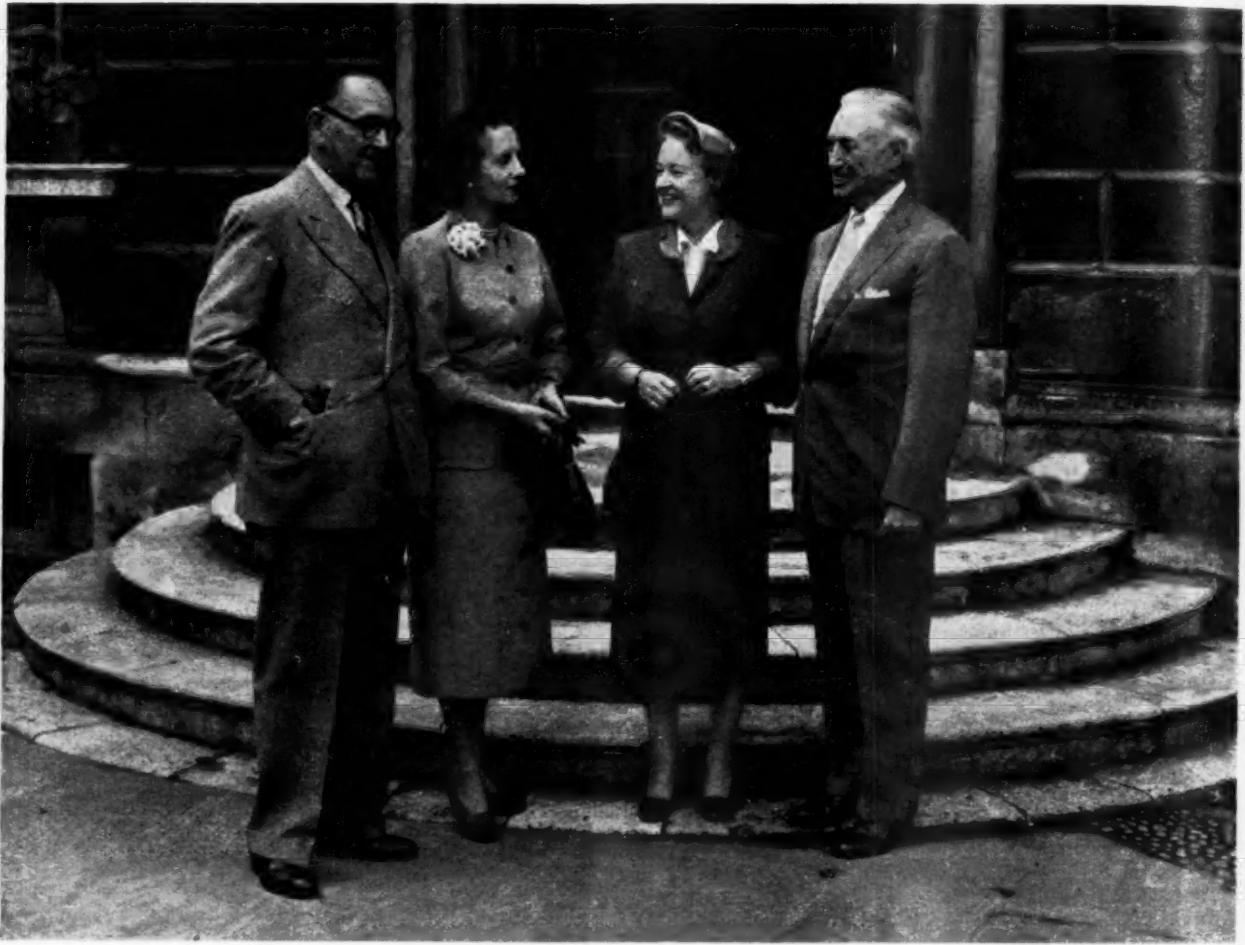
Executorship Law and Trusts—Degree of Certainty Required for Condition Precedent.

A condition subsequent expressed in a will operates to divest or determine a gift or estate previously or otherwise vested so that if the condition be void the gift or estate remains. The Courts are inclined against the divesting of gifts or estates already vested and will not hold a condition subsequent to be valid unless the persons affected, or the Court, if they seek its guidance, can from the outset know with certainty the exact event on the happening of which their interests are to be divested. On the other hand a condition precedent or qualification—for example, a gift to the eldest son with red hair—is not construed so strictly; all that the claimant has to do is to establish, if he can, that he satisfies the condition or qualification whatever be the appropriate test.

The Court of Appeal applied these principles in **Re Allen** (1953, 3 W.L.R. 637). The testator had devised property to the eldest son of F "who shall be a member of the Church of England and an adherent to the doctrine of that Church." Vaisey, J., had held in the Court below that the gift was void for uncertainty (see *ACCOUNTANCY* for April 1953, page 130), and the Court of Appeal would have agreed with him if he had been construing a condition subsequent. Here, however, there was a condition precedent or qualification and it might well be that the claimant could show that he did satisfy the requirements: there might be borderline cases, but if, for example, a claimant was a prelate of the Church it would be extraordinary to say that he did not satisfy the requirements.

GEORGE ANSON & CO. LTD., office machine manufacturers, announce that their new address is Anson House, 58, Southwark Bridge Road, London, S.E.1.—Telephone: Waterloo 3746-9.

The Society of Incorporated Accountants



INCORPORATED ACCOUNTANTS' COURSE, CAMBRIDGE, 1953

Our photograph shows (left to right): Mr. C. Percy Barrowcliff, President of the Society of Incorporated Accountants; Mrs. Barrowcliff; Mrs. J. William Hope; and Mr. J. William Hope, immediate past-President of the American Institute of Accountants.

*LUNCHEON TO
MR. AND MRS. J. WILLIAM HOPE*

AFTER THE CONCLUSION OF THE INCORPORATED Accountants' Course at Cambridge, the President and Council entertained at a luncheon at Incorporated Accountants' Hall on September 22 Mr. J. William Hope, immediate past-President of the American Institute of Accountants, and Mrs. Hope. Mr. Hope had addressed the course on "The Organisation of an Accountant's Office in the U.S.A."

Mr. C. Percy Barrowcliff, President of the Society, was in the chair, and the members of Council and their ladies present

included Mr. Bertram Nelson (Vice-President); Mrs. Barrowcliff; Mr. and Mrs. A. Stuart Allen; Mr. and Mrs. Edward Baldry; Mr. and Mrs. R. Bell; Mr. and Mrs. H. J. Bicker; Professor and Mrs. F. Sewell Bray; Mr. A. Brodie; Mr. and Mrs. E. Cassleton Elliott; Mr. and Mrs. H. O. Johnson; Sir Thomas Keens; Sir Arthur and Lady Middleton; Mr. and Mrs. T. H. Nicholson; Mr. and Mrs. F. A. Prior; Mr. and Mrs. W. G. A. Russell; Mr. and Mrs. Percy Toothill; with Mr. and Mrs. L. T. Little, Mr. I. A. F. Craig (secretary) and Mrs. Craig, Mr. C. Evans-Jones (deputy secretary) and Mrs. Evans-Jones, and Mrs. J. J. Duncalf.

EVENTS OF THE MONTH

September 28-October 2.—*London*: Non-residential pre-examination courses. King's College.

October 2.—*Birmingham*: "Some Costing Problems," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Law Library, Temple Street, at 6.15 p.m.
Brighton: "Costing," by Mr. V. S. Hockley, B.COM., C.A. Students' meeting. Royal Pavilion, at 7 p.m.

Cambridge: Mock Taxation Appeal, arranged by Mr. W. H. G. Chapman, A.S.A.A. The Shire-hall, at 7 p.m.

Hull: "Current Financial Problems," by Mr. C. L. Lawton, M.Sc.(Econ.), LL.M., Barrister-at-Law. Students' meeting. Church Institute.

Albion Street, at 6.15 p.m.
Manchester: "Elements of English Law," by
Mr. J. Stewart Oakes. Students' meeting.

Incorporated Accountants' Hall, 90, Deansgate, at 6.30 p.m.

October 3.—*Leeds*: "Statutory Apportionments," by Mr. K. P. Proctor, A.S.A.A. Students' class. 2, Basinghall Square, at 11 a.m.

October 5.—*Coventry*: "Legal and Equitable Apportionments," by Mr. C. L. Lawton, M.Sc. (ECON.), Barrister-at-Law. Craven Arms, High Street, at 6.30 p.m.

London: "Estate Duties and Reversionary Interest," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

Stockton-on-Tees: "Accounting," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Sparks Café, High Street, at 6.30 p.m.

October 6.—*Bournemouth*: Film and demonstration of Hollerith tabulating machines.

Newcastle upon Tyne: "Valuation of Shares for Estate Duty," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. The Library, 52, Grainger Street, at 6.15 p.m.

October 7.—*Newton Abbot*: "Accountancy," by Mr. V. S. Hockley. Courtenay Restaurant, Courtenay Street, at 7 p.m.

Norwich: "Standard Costing and Budgeting Control," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Royal Hotel, at 7 p.m.

Southampton: Film and demonstration of Hollerith tabulating machines. Polygon Hotel, at 6.30 p.m.

October 8.—*Bradford*: "Some Difficult Problems in Company Accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Liberal Club, Bank Street, at 6.30 p.m.

Plymouth: "Accountancy," by Mr. V. S. Hockley. Law Chambers, Princess Square, at 6 p.m.

October 9.—*Birmingham*: "Modern Accounting Principles," by Mr. R. Glynn Williams, F.C.A., F.T.I.I. Law Library, Temple Street, at 6.15 p.m.

Bristol: "Some Current Economic Problems," by Mr. A. L. Dalby, B.Sc. (ECON.). Royal Hotel, College Green, at 6.30 p.m.

Leicester: "General Outline of Law," by Mr. C. L. Lawton, M.Sc. (ECON.), Barrister-at-Law. Turkey Café, Granby Street, at 6 p.m.

Manchester: "Elements of English Law," by Mr. J. Stewart Oakes. Students' meeting. Incorporated Accountants' Hall, 90, Deansgate, at 6.30 p.m.

Turbo: "Accountancy," by Mr. V. S. Hockley. Mansion House, Princes Street, at 6 p.m.

October 10.—*Leeds*: "Methods of Remunerating Labour," by Mr. A. L. Ward, B.A. Students' class. 2, Basinghall Square, at 11 a.m.

October 12.—*Leicester*: "Income Tax Case Law," by Mr. Philip Shelbourne. Bell Hotel, at 6 p.m.

London: "Revision of the Companies Act." Discussion. Incorporated Accountants' Hall, W.C.2, at 5.30 p.m.

Sheffield: "Britain's Economic Prospects Now," by Mr. Stanley Please, B.Sc. (ECON.). City Hall, at 6.30 p.m.

October 13.—*Dublin*: "The Auditor and the Companies Act, 1908," by Mr. W. D. Gahan, A.S.A.A. Students' meeting. Jury's Hotel, at 6.15 p.m.

Newport, Mon.: "Hollerith." Film and talk by the British Tabulating Machine Co., Ltd. Students' meeting. Monmouth and

South Wales Building Society, Dock Street, at 6.30 p.m.

Shrewsbury: "Shares and Debentures—The Accounting Problems," by Mr. P. E. Harris, A.S.A.A. Raven Hotel, at 6.30 p.m.

October 14.—*Birmingham*: "Impressions of American Methods," by Miss Beryl Foyle. Joint meeting arranged by the Office Management Association. Grand Hotel, at 6.30 p.m.

Coventry: "Shares and Debentures—The Accounting Problems," by Mr. P. E. Harris, A.S.A.A. Hare and Squirrel Hotel, Old Cheylesmore, at 6.30 p.m.

Swindon: "Fraud and Evasion of Income Tax," by Mr. J. W. Walkden, A.C.A., A.S.A.A. Town Hall, Regent Circus, at 7.30 p.m.

October 15.—*Gloucester*: "Liquidators and Receivers," by Mr. A. V. Hussey, F.S.A.A. Wheatstone Hall, at 6.30 p.m.

Wolverhampton: "The Accountancy Aspect of the Company's Capital," by Mr. P. E. Harris A.S.A.A. Star and Garter Royal Hotel, at 6.15 p.m.

October 16.—*Birmingham*: Discussion group. Law Library, Temple Street, at 6.15 p.m. *Hanley*: North Staffordshire District Society. Annual general meeting, preceded by supper at 7.30 p.m. Grand Hotel.

Manchester: "Elements of English Law," by Mr. J. Stewart Oakes. Students' meeting. Incorporated Accountants' Hall, 90, Deansgate, at 6.30 p.m.

Nottingham: "Audits of Limited Companies," by Mr. A. C. Simmonds, F.S.A.A. Reform Club, Victoria Street, at 6.30 p.m.

October 17.—*Leeds*: "Schedule D. Partnership Assessments," by Mr. S. Snowball, F.S.A.A. Students' class. 2, Basinghall Square, at 11 a.m.

October 19.—*London*: "The Formal Principles of Company Accounting," by Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting. Public research lecture. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

Luton: "Partnership Law," by Mr. St. John Chester, Barrister-at-Law. Students' meeting. George Hotel, at 6.15 p.m.

October 19-24.—*Dublin*: Refresher courses for Intermediate and Final candidates.

October 20.—*Dudley*: "The Scope of Income Tax," by Mr. H. G. Roberts, H.M. Inspector of Taxes. Dudley and Staffordshire Technical College, Broadway, at 7 p.m.

London: Society of Incorporated Accountants: Dinner. Incorporated Accountants' Hall, W.C.2.

Newcastle upon Tyne: "Schedule D—Case I," by Mr. F. Stuart, A.S.A.A. The Library, 52, Grainger Street, at 6.15 p.m.

October 21.—*Bradford*: "Criticism of Accounts," by Mr. R. Glynn Williams, F.C.A., F.T.I.I. Liberal Club, Bank Street, at 6.30 p.m.

Norwich: Dinner. Royal Hotel, at 7 for 7.30 p.m.

October 23.—*Birmingham*: "The Accounts of an Executor, Trustee, and Administrator," by Mr. G. G. Thomas, Ph.D., F.S.A.A., A.C.A. Law Library, Temple Street, at 6.15 p.m.

Bristol: "Group Accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Royal Hotel, College Green, at 6.30 p.m.

Manchester: "Executorship," by Mr. C. L. Lawton, M.Sc., Barrister-at-Law. Students'

meeting. Incorporated Accountants' Hall, 90, Deansgate, at 6.30 p.m.

Sheffield: "Back Duty," by Mr. J. W. Walkden, A.C.A., A.S.A.A. Law Society Rooms, Campo Lane, at 6 p.m.

October 24.—*Leeds*: "An Economic Survey of Great Britain during the past year," by Mr. R. Bainbridge, M.C., B.COMM. Students' class. 2, Basinghall Square, at 11 a.m.

October 26.—*London*: "Sale of Goods Act," by Mr. R. D. Penfold, LL.B., Barrister-at-Law. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

October 27.—*Birmingham*: Dinner dance. Birmingham Botanical Gardens, Edgbaston.

Dublin: "Double Taxation," by Mr. Patrick Garland, A.A.C.G.A. Students' meeting. Jury's Hotel, at 6.15 p.m.

Glasgow: Luncheon.

October 29.—*Norwich*: Visit to Reckitt & Colman, Ltd. Tour of works and talk on Standard Costs. Carrow Works, at 2.30 p.m.

Waterford: "Income Tax," by Mr. G. M. Wheeler, A.C.A., A.C.I.S. Students' meeting. Office of Messrs. W. A. Deery & Co., at 8 p.m.

October 30.—*Birmingham*: "Taxation—Losses," by Mr. Sidney I. Simon, Barrister-at-Law. Law Library, Temple Street, at 6.15 p.m.

Leicester: "The Sale of Goods Act, 1893," by Mr. Alexander M. B. Rule, M.B.E., M.A., LL.B., Barrister-at-Law. Turkey Café, Granby Street, at 6 p.m.

Manchester: "Accountancy Methods based upon Modern Accountancy Machines." Lecture and demonstration by Burroughs Adding Machine, Ltd. Incorporated Accountants' Hall, 90, Deansgate, at 6.30 p.m.

Torquay: Dinner.

October 31.—*Leeds*: "Branch Accounts," by Mr. C. S. Paylor, A.S.A.A., A.C.A. Students' class. 2, Basinghall Square, at 11 a.m.

November 2.—*Bedford*: "Law of Negotiable Instruments," by Mr. R. D. Penfold, Barrister-at-Law. Embankment Hotel, at 6.15 p.m.

Coventry: "The Eighth Schedule," by Mr. W. G. A. Russell, F.S.A.A. Craven Arms, High Street, at 6.30 p.m.

London: "Duties of a Liquidator," by Mr. R. Glynn Williams, F.C.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

November 3.—*Bradford*: Mock creditors' meeting, arranged by Mr. A. V. Hussey, F.S.A.A. Liberal Club, Bank Street, at 6.30 p.m.

Dublin: "Law of Agency," by Mr. Donal Barrington, B.A., LL.B., Barrister-at-Law. Students' meeting. Jury's Hotel, at 6.15 p.m.

Newcastle upon Tyne: "Branch Accounts and Departmental Accounts," by Mr. F. E. Nolan, A.C.A. The Library, 52, Grainger Street, at 6.15 p.m.

Newport, Mon.: "The Stock Exchange," by Mr. R. D. Milner, Stockbroker. Students' meeting. Monmouth and South Wales Building Society, Dock Street, at 6.30 p.m.

November 6.—*Birmingham*: Lecture on a current economic problem by Professor Gilbert Walker, M.A., D.LITT. Joint meeting arranged by the University Accounting Society. The University, Edmund Street, at 6.30 p.m.

Brighton: "Group Accounts," by Mr. P. E. Harris, A.S.A.A. Students' meeting. Royal Pavilion, at 7 p.m.

Cambridge: "Profits Tax Computations," by

Mr. L. A. Hall, A.C.A., A.S.A.A. The Shirehall, at 7 p.m.
Hanley: "Technique of Back Duty Investigation," by Mr. J. W. Walkden, A.C.A., A.S.A.A. Town Hall, at 6.30 p.m.
Hull: "Profits Tax," by Mr. J. Reynolds, A.C.A., A.S.A.A. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.
Leeds: Dinner.
Manchester: "Executorship," by Mr. C. L. Lawton, M.Sc., Barrister-at-Law. Students' meeting. Incorporated Accountants' Hall, 90, Deansgate, at 6.30 p.m.

DISTRICT SOCIETIES

NORTHERN IRELAND

THE ANNUAL GOLF OUTING WAS HELD ON September 7 at the Clandeboye Golf Links. In the morning a 9-hole stroke competition was played for the Allen Cup, which was won by Mr. J. S. M. Winnington, the runner-up being Mr. S. B. I. Abbott.

In the afternoon an 18 hole bogey points competition for the Booth Cup was won by Mr. R. J. Neely. The runner-up was Mr. J. S. M. Winnington; but as it is a rule in this competition that no player can win two prizes the second prize was presented to the next best scorer, Mr. W. C. Balmer.

The President, Mr. H. F. Bell, presented the prizes and thanked the captain of the Clandeboye Golf Club for the use of the course.

NORTH STAFFORDSHIRE

THE DISTRICT SOCIETY LIBRARY HAS BEEN transferred to the Central Reference Library, Hanley Public Library, Pall Mall, Hanley.

SHEFFIELD REPORT

TEN LECTURES WERE HELD DURING THE YEAR. The dinner on October 3 was well attended and many expressions of satisfaction were received.

Nine students passed the Final and nineteen the Intermediate Examination.

Saturday morning classes are held jointly with Institute students. Mr. Arnold Graves is still the lecturer in accountancy. Classes are also held on Tuesdays for first-year and pre-articled clerks.

The membership is 178 Fellows and Associates and 183 students.

PERSONAL NOTES

Messrs. Donald H. Bates & Co., Stoke-on-Trent, announce that Mr. W. C. Coxon, F.S.A.A., has resigned from the firm. They

have admitted to partnership Mr. D. G. Pratt, A.S.A.A., and Mr. G. B. Bennett, A.C.A., who have been with them for many years.

Mr. Stanley J. Careless, A.C.A., A.S.A.A., F.C.W.A., has been appointed Chief Accountant of Belliss & Morcom, Ltd., Birmingham.

Mr. Herbert M. Searle, Incorporated Accountant, has commenced practice at 3, Wheatsheaf Close, Woking, Surrey.

Mr. D. K. G. Morgan, A.S.A.A., has been appointed Chief Accountant to the Austin-Hall group of companies, London, E.6.

Mr. C. R. Curtis, A.S.A.A., formerly Deputy Borough Treasurer, is now Borough Treasurer of Aldershot.

REMOVALS

Mr. G. W. Sharp, Incorporated Accountant, announces that his practice has been transferred to Sun Buildings, 15, Park Row, Leeds, 1.

Mr. W. H. Stephens, Incorporated Accountant, has removed his office to 281, Broadway, Bexleyheath, Kent.

Mr. R. L. Lloyd, Incorporated Accountant, is now practising at 1, Tettenhall Road, Wolverhampton.

Mr. J. D. Jennings, A.C.A., A.S.A.A., practising as J. D. Jennings & Co., has changed his address to Liverpool House, 15-17, Eldon Street, London, E.C.2.

Messrs. Button, Stevens & Witty, Incorporated Accountants, advise that their address is now Dashwood House, 69, Old Broad Street, London, E.C.2.

Mr. John S. Pollen, Incorporated Accountant, has removed his offices to 19, Buckingham Street, London, W.C.2.

Messrs. F. F. Sharles & Co. announce that their address is now 12, Harley Street, London, W.1.

OBITUARY

FREDERICK WILLIAM IRVING

Mr. F. W. Irving, A.S.A.A., whose death took place on August 31 at the age of 59, began his accountancy career in the offices of Messrs. Lewis and Mounsey, Liverpool, in 1911. During the first World War he served with the Liverpool Scottish, returning to qualify as an Incorporated Accountant in 1923. From December 1935 until January 1942 he was secretary of the Liverpool Exchange Company, but except for this period he remained as manager with Messrs. Harmood Banner, Lewis and Mounsey until the date of his death.

Mr. Irving served on the Port of Liverpool and District Branch Committee of the

Royal National Lifeboat Institution for many years. He was a prominent Free-mason.

Since 1950 he had been a member of the Committee of the Incorporated Accountants' District Society of Liverpool. He was a most able and popular member of the accountancy profession and will be greatly missed by his colleagues.

JAMES PICTON JAMES

We record with regret the death on August 30 of Mr. J. Picton James, M.B.E., A.S.A.A., for many years general manager of Richard Thomas & Baldwins, Ltd. After retiring in 1945, he returned to help with problems arising from the nationalisation of the coal industry.

During World War I his service as secretary to successive Ministers of Munitions was recognised by the award of the M.B.E. He became a member of the Society of Incorporated Accountants in 1923, and was also a member of the Chartered Institute of Secretaries and of the Institute of Cost and Works Accountants.

Mr. James was a Justice of the Peace for Glamorgan, and last year became vice-chairman of the Port Talbot justices. He was chairman of the Swansea Boy Scouts' Association and of the Kenfig Hill and Pyle Miners' Welfare Association, and an elder and former treasurer of Mount Pleasant Baptist Church.

He had served as chairman of the Cardiff District Board of the South Wales and Monmouthshire Coalowners' Association, and was a member of the executive board of the South Wales District Coal-mines Scheme in 1930.

CHARLES ARCHIBALD MILFORD

We learn with regret that Mr. C. A. Milford, F.S.A.A., senior partner of Messrs. Milford & Co., Settle, Yorkshire, died on September 15 at the age of 77. After some years spent in teaching and as municipal education officer at Settle, he served during World War I in the Duke of Wellington Regiment. On demobilisation he entered into articles with Mr. W. H. Marsden, F.S.A.A., qualifying as an Incorporated Accountant in 1923, when he commenced public practice in Blackburn and Settle.

Mr. Milford was a keen cricketer, playing for the Settle and East Lancashire clubs, and maintaining an active interest in them until his death.

He was second senior Past Master of the Castleberg Lodge of Freemasons, and a Past Warden of the Provincial Grand Lodge. He served for many years on the committee of the Settle branch of the British Legion.

The funeral took place at Settle parish church on September 18.

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